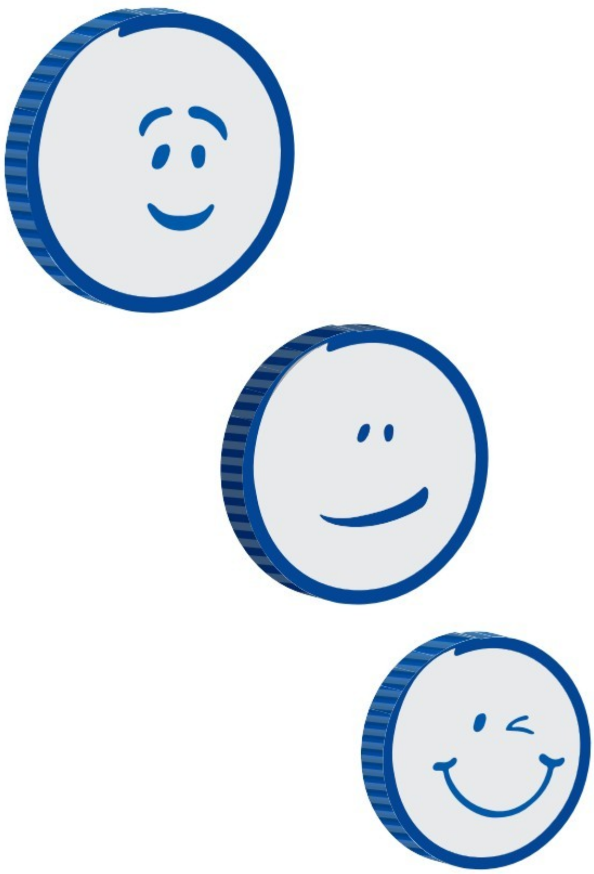
ANNUAL REPORT AND FINANCIAL STATEMENTS

2018



INSURING HAPPINESS

APA LIFE

www.apainsurance.org

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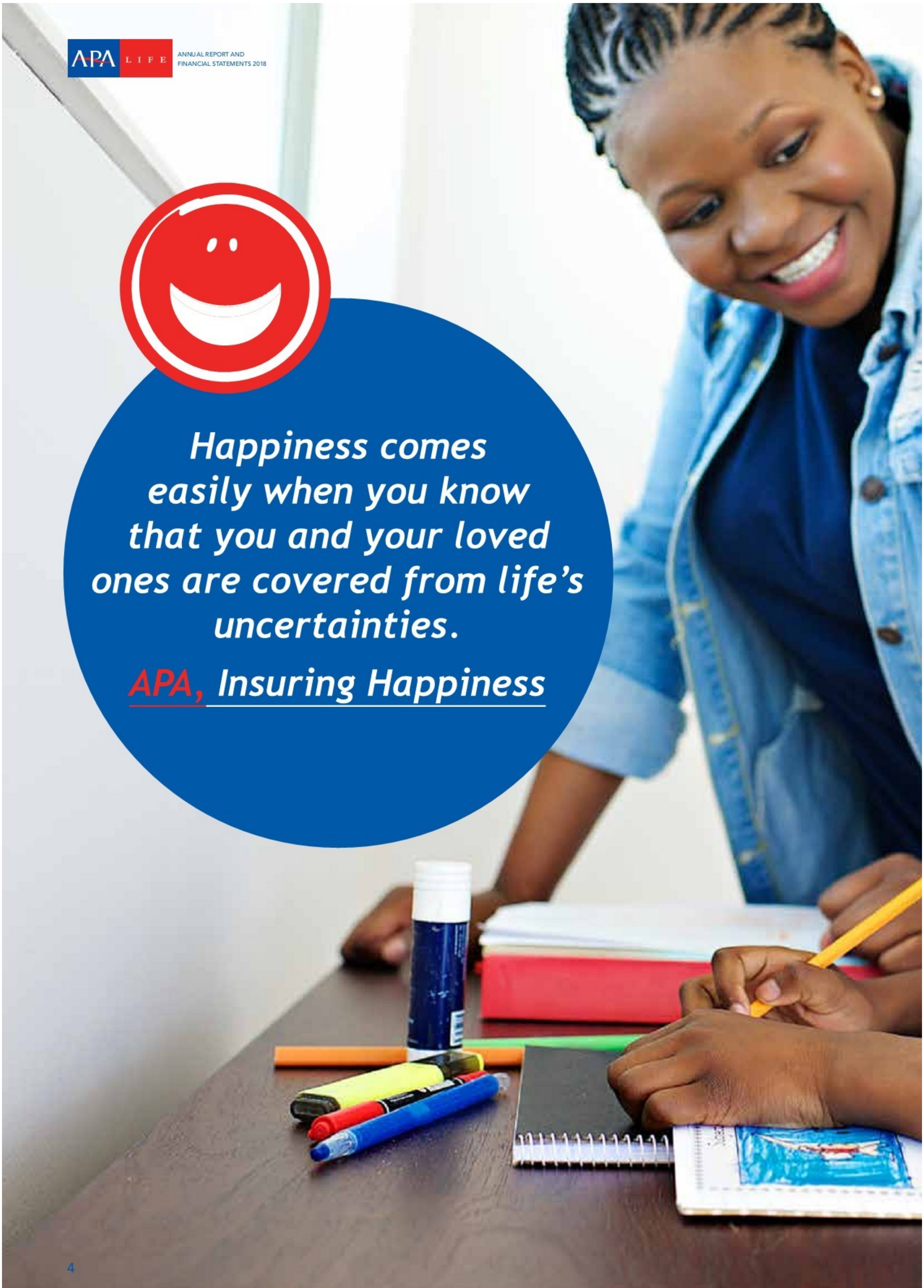
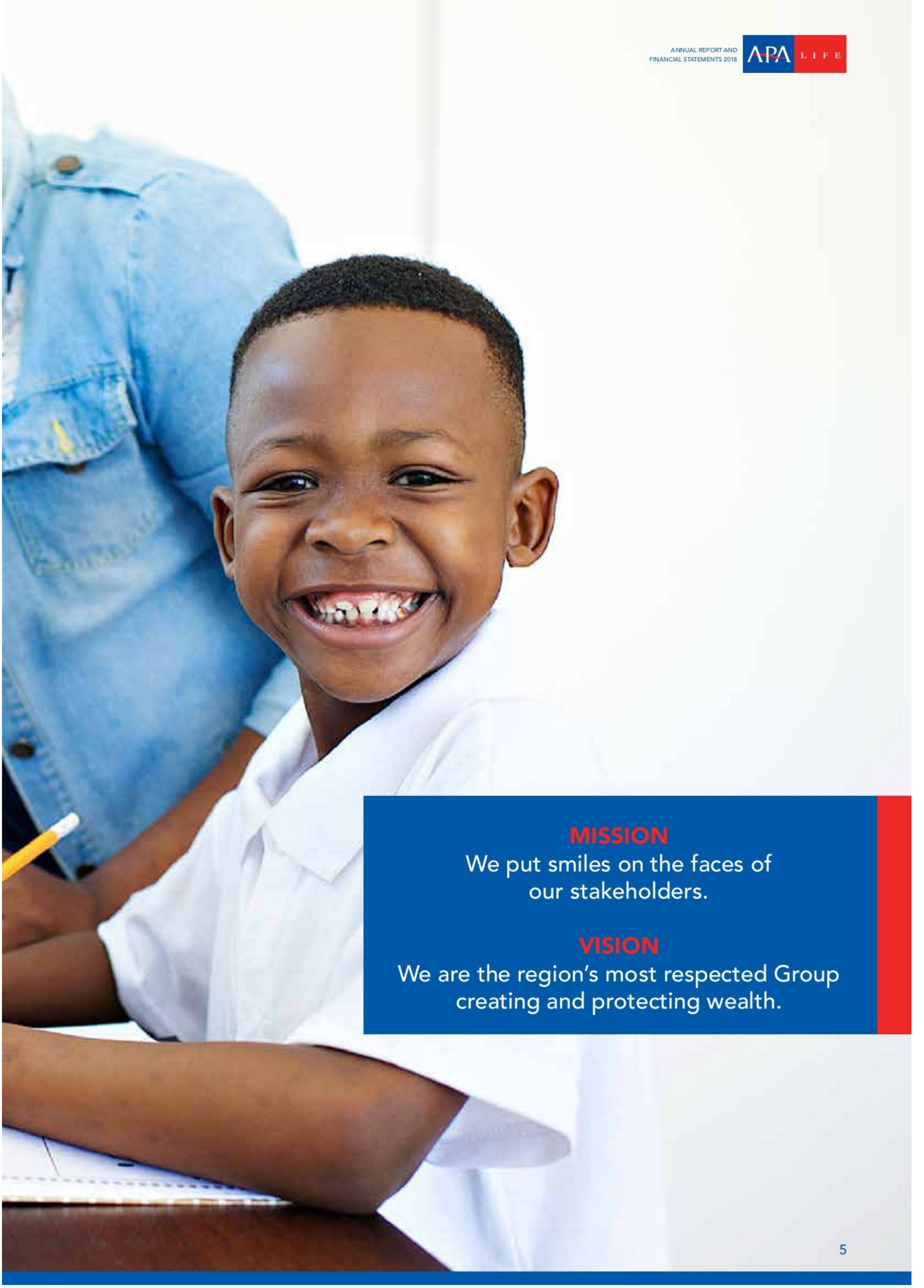

Happiness comes easily when you know that you and your loved ones are covered from life's uncertainties.
APA, Insuring Happiness



MISSION

We put smiles on the faces of our stakeholders.

VISION

We are the region's most respected Group creating and protecting wealth.

COMPANY INFORMATION

DIRECTORS

R M Ashley*	- Chairman
D M Ndonye	
A K M Shah	
P J Shah	
S M Shah	
R Schnarwiler**	
P M K Shah*	
J N Gitoho	- Resigned 23 August 2018
M W Kimotho, MBS	- Appointed 12 February 2019

*British **Swiss

COMPANY SECRETARY

P H Shah
Certified Public Secretary (Kenya)
P.O. Box 30094 - 00100
Nairobi

SENIOR MANAGEMENT

Catherine Karimi	- Chief Executive Officer
Daniel Mugo	- Chief Finance Officer
Bernard Kinyanjui	- Head of Corporate Business
Vitalis Mbae	- Actuarial Officer
Jane Watiki	- Head of Operations - Corporate Business
Harriet Aleke	- Head of Operations - Retail Business
Stephen Muiga	- Business Development Manager - Alternative Channels
James Njagi	- Business Development Manager - Deposit Administration
Mark Mumo	- Business Development Manager - Corporate Business, Group Life
Benedicto Makena	- Business Development Manager - Retail Business

AUDITOR

PricewaterhouseCoopers
Certified Public Accountants (Kenya)
PwC Tower, Waiyaki Way, Chiromo Road
P.O. Box 43969- 00100
Nairobi

BANKERS

Commercial Bank of Africa Limited
P.O. Box 30437-00100
Nairobi

CONSULTING ACTUARIES

Giles T Waugh, FASSA, FIA
Independent Actuarial Consultant
+27 11 646 0199/ +27 83 680 7990

REGISTERED OFFICE

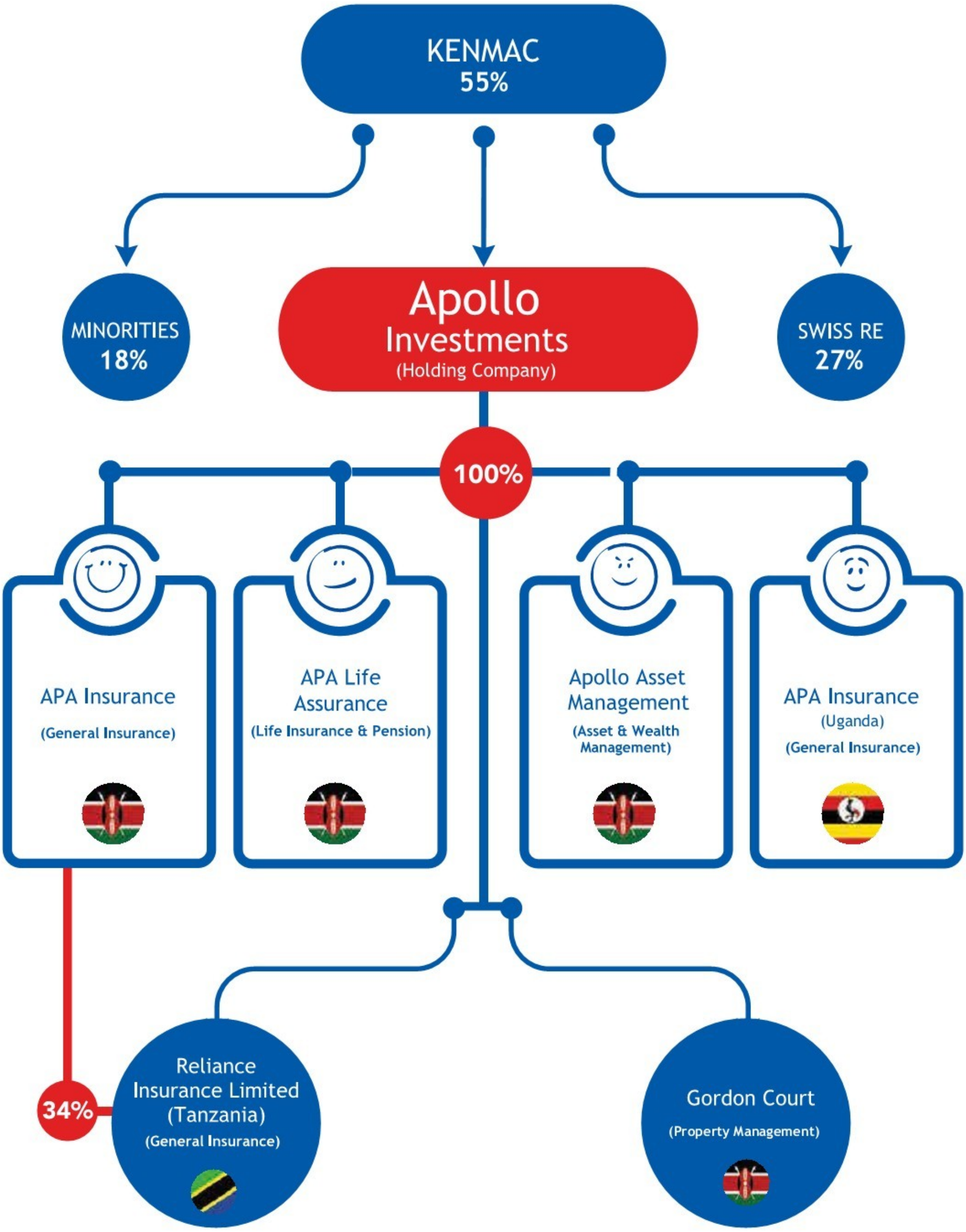
Apollo Centre,
07 Ring Road Parklands, Westlands
P.O. Box 30389 - 00100
Tel: +254 (0) 20 364 1000
Nairobi

AGENCY OFFICE

Barclays Plaza,
Koinange Street
P.O. Box 30389 - 00100
Tel: +254 (0) 20 364 1042
Nairobi

Apollo House
Moi Avenue
P.O. Box 81821 - 80100
Tel: +254 (0) 41 227506
Mombasa

GROUP STRUCTURE



BOARD OF DIRECTORS - READY TO LEAD

Mary M'Mukindia
Director

Pratul Shah
Company Secretary

S. M. Shah
Director

Piyush Shah
Director

Richard Ashley
Chairman

BOARD OF DIRECTORS *(CONTINUED)*

Ashok Shah
Director

P.J. Shah
Director

John Piper
Board Observer

Daniel Ndonye
Director

Reto Shnarwiler
Director

MANAGEMENT TEAM

CATHERINE KARIMI
Chief Executive Officer

Daniel Mugo
Chief Finance Officer

Harriet Aleke
Head of Operations - Retail Business

Bernard Kinyanjui
Head of Corporate Business

Jane Watiki
Head of Operations - Corporate Business

James Njagi
Business Development Manager – Deposit Adminstration

Mark Mumo
Business Development Manager – Corporate Business - Group LIfe

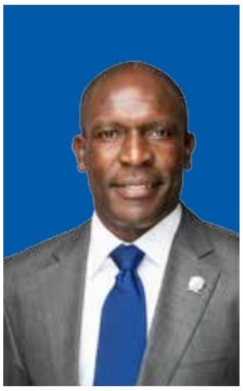
Stephen Muiga
Business Development Manager – Alternative Channels

Benedicto Makena
Business Development Manager – Retail Business

Vitalis Mbae
Actuarial Officer

MANAGEMENT TEAM *(CONTINUED)*

Keval Shah
Group Chief
Finance Officer



Chris Ngala
Group Head of Audit

Benjamin Otieno
Group Head of Risk

Juliana Nguli
Group Head of
Human Resource

James Nyakomitta
Group Head of ICT

Jackie Tonui
Group Head of
Corporate
Communications

Judith Bogonko
Group Head of
Customer Service

INSURING HAPPINESS

CHAIRMAN'S STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2018

'Dear Shareholders,

On behalf of the Board of Directors, I am pleased to present the Company's Annual Report and Financial Statements for the year ended 31 December 2018'.

ECONOMY & BUSINESS ENVIRONMENT OVERVIEW

A rebound in agriculture and a return to political stability have helped strengthen the momentum of Kenya's economy in 2018, with the rollout of large infrastructure projects expected to see this growth continue in the medium term.

The IMF forecasts GDP will expand to 6% in 2018, an increase on the 4.9% growth recorded in 2017. The fund's forecast was supported by data from the Kenya National Bureau of Statistics (KNBS), which showed that GDP had expanded by 6.3% (y-o-y) in the first three quarters of 2018.

A continuation of favourable weather conditions characterised by heavy downpours, have been a boon for agricultural and hydroelectric activities. Healthy diaspora remittance inflows and a marked increase in tourism earnings against a strengthening shilling also drove the strong outturn and helped to narrow the current account deficit by nearly a quarter compared to the same period last year.

Growth is expected to remain strong in 2019, thanks to solid domestic demand. Private consumption should continue to expand at a healthy pace, buoyed by solid remittances inflows and a tight labour market, while upbeat business confidence should continue to support strong fixed investment growth.

The continuation of the interest rate cap on commercial bank lending rates will likely curb the availability of credit, and lead to tougher conversations with multi-lateral agencies like the IMF.

In addition to more favourable climatic conditions, the KNBS cited improved political stability as a factor supporting growth in 2018. This stability also helped the local currency maintain its position against the dollar, with the shilling trading at 101.81 to the US dollar as of December 28. Having opened 2018 at 103.29 to the dollar, the shilling managed to avoid the volatility that beset many currencies in developing countries during the past year. The local unit gained 1.4% against the USD in 2018, to close the year at 101.8 compared to 103.2 at the end of 2017, becoming the only African currency to appreciate against the greenback. The KES is projected to continue its stability in the short term. With regard to stock market performance, NASI index was down by -18% during 2018. The haemorrhage was largely led by large-cap stock prices declining from the second quarter as a result of global sell-offs by foreign investors from emerging markets. Foreign investor outflows increased in 2018 to USD 425.6mn, compared to USD 113.7mn in 2017. This was reflected general trend where international investors exited emerging markets as interest rates went up in the US coupled with the strengthening of the US Dollar

BIG FOUR INFRASTRUCTURE PLANS TO SUPPORT 2019 GROWTH

Despite an increase in the cost of key products, the positive performance of 2018 is expected to continue in the near future, with the IMF predicting growth of 6.1% in 2019 as the government continues with the rollout of major infrastructure projects.

The country's "Big Four" plan, which focuses on increasing investment in affordable housing, manufacturing, food security and universal health care, is expected to gain momentum in 2019 following the implementation of a series of pilot programmes.

CHANGES IN THE BOARD

Mr. James Gitoho, who has been a director resigned to pursue other personal interest in August 2018. On behalf of the Board of the Directors, we wish James well in his future pursuits.

At the start of 2019, directors appointed Ms. Mary Kimotho M'Mukindia, ACC, MBS as a member of the Board of Directors of the Company. Mary is a renowned corporate leader and Executive Leadership Coach with over 35 years of a dynamic career both in public and private sectors. Mary joins the Apollo APA family with wealth of experience and the board has expressed confidence in bringing value and diversity within the board. I therefore request the board members and other stakeholders to join me in welcoming Mary on board and looking forward to fruitful contributions.

CHAIRMAN'S STATEMENT *(CONTINUED)*

FOR THE YEAR ENDED 31 DECEMBER 2018

2018 PERFORMANCE REVIEW

In 2018, for the ordinary life and group life insurance lines, we recorded gross premium income of Shs. 963 Million compared to Shs. 908 Million in 2017 registering a growth of 6%. The pension line recorded a decline of 10% in contributions from Shs.585Million in 2017 to Shs.530 Million. The total revenue including the DAP contribution remaining flat at Shs1.492 Million over 2017.

Our loss before tax for the year stood at Shs22 Million (2017: Loss of Shs 59.7 Million) while the total comprehensive loss stood at Shs 32 Million, (2017: loss of Shs 26 Million), both remaining flat under very tight and volatile business environment, largely attributed to better investments experience and strict cost controls during the year.

Our deposit administration fund maintained a steady growth of 12% to stand at Shs 3.5B at end of the year, up from Shs3.1Billion in 2017. In consultation with our Statutory Actuary, the Board of Directors has approved a reversionary bonus of 4% on the "with profit individual life policies" and an interest of 10.25%, (2017: 9.50%) on deposit administration schemes and individual pension plans funds. This was primary occasioned better performance of investment income and available for sale investments during the year. The board continues to support management new initiatives geared towards improving business efficiency and improving returns to all stakeholders We believe that we are on the right track and direction.

Our total asset base surpassed the Shs5 Billion mark to stand at Shs5.3 Billion from Shs4.7 Billion translating to a growth of 13%.

The Company continues to enjoy the benefits of our fully integrated life management system that has enabled the business to largely automate its operations. The key benefits derived from the new system include efficient and more effective service delivery to our clients and producers through self-service client and agent portals. The system is enabling us to fully exploit the opportunities presented in the alternative distribution channels of bancassurance, mobile platforms and other digital strategies. Through this service differentiation initiative, we continuously benchmark our service delivery to the best practices worldwide which is bearing returns in form of increased business volume.

CHAIRMAN'S STATEMENT *(CONTINUED)*

FOR THE YEAR ENDED 31 DECEMBER 2018

FUTURE OUTLOOK

The insurance industry is at that point where change must be intentionally made. Failure to which we risk letting our future be dictated by a revolutionary business. The industry is facing changes from different fronts and each require different, but implementable, interventions. As a starter, the proliferation of technology and its ubiquity in our everyday life, means that if technology is not ingrained in our processes and products, we are likely to be left behind by our competitors and other service providers. Technology is critical in increasing internal efficiencies and improving customer service.

Another change that the insurance industry must contend with is the changing consumer. Kenya's median age is 19 years, 50 per cent of the Kenyan population is aged between 0 and 19 years, while 25 per cent is aged between 20 and 34 years. The 20 to 34 year olds are climbing the income ladder and possess long-term purchasing power, they also happen to be the most underinsured. These consumers are tech savvy, well-educated and have a variety of options for insurance products, both formal and informal. Their tastes and preferences for insurance products also differ from what has been the norm. For them, understanding the product and the benefits it offers is paramount. They prefer to enjoy the benefits within a shorter period, five years and below, and they are also keen on investing as opposed to only protecting themselves from risk. We need to focus on this consumer who will form the bulk of policy holders in the short term.

Bearing the customers' requirements in mind, we are focused on customising products and determining the best communication and distribution channels.

Increased supervision of the financial sector is another change that is sweeping across the insurance industry both locally and globally. The Insurance Regulatory Authority introduced the Risk Based Supervision model in 2013. This was followed by the Risk Based Capital. This is a positive move, and an ongoing process, as it ensures insurance companies can meet their liabilities and especially to its customers or policy holders, an element that has been the thorn in the flesh for the industry. The implementation process is ongoing up to June 2020 when all companies are expected to have complied. Different insurers can now hold different levels of capital depending on their business profiles. The Apollo Group has maintained that compliance is important and the growth projections of APA Life need to be supported to meet the requirements of the Insurance Act. To this end the Group has increased the paid up Capital of APA Life.

The implementation of IFRS9 came into force effective 1 January 2018 which required insurance companies to make full provisions of receivables therefore affecting the bottom line/profitability of the companies. This calls for insurance companies to review their credit policy and other investment segments in order to minimize and manage the impact of the change in accounting policy as well as becoming compliant with this regulation.

ACKNOWLEDGMENT

My appreciation to the policy holders, intermediaries and our business partners for their support. I wish to thank the management and staff for their commitment, loyalty and dedication in driving the Company forward. Finally, I wish to thank my fellow Directors and record my appreciation for their continued support and considered advice.

RICHARD M ASHLEY

Chairman

12 March 2019

SAVING UP FOR SOMETHING BROUGHT ME SO MUCH HAPPINESS.

“Save save save” was what my mother used to tell me. “No matter how small the amount, start saving”. I carried this teaching with me and when I was of age and aware of APA IMARIKA, I signed up for the product and started making small contributions monthly. 3 years later, a piece of land I had always admired was up for sale and thanks to my Imarika savings, I was able to buy it in full and still have money in my savings. Who knew small savings would do something so big. Thank you APA for putting a smile on my face and insuring my happiness

APA Imarika

CEO'S STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2018

'Dear Shareholders,
I am delighted to present the CEO's statement for the year ended 31 December 2018'.

INSURANCE INDUSTRY

The Kenyan insurance market continues to face numerous challenges including very low insurance penetration, high risk and increasing incidence and cost of fraud and increased competition due to the arrival of new entrants in an already crowded industry, including an increasing number of global players. A number of market participants have responded to these developments by reducing premiums and as a result underwriting results have deteriorated with a consequent impact on industry profitability and service standards. Not surprising, therefore, a significant number of players witnessed a reduction in profitability compared to the 2017 results.

After the turbulence of 2017 elections during which the economy had predictably slowed down, it was widely expected that 2018 would be a year of revival and growth. Unfortunately for the insurance industry, in particular, 2018 turned out to be worse than 2017. Between 2013 & 2016 the industry had registered a CGR of 10% and in 2017 this came down to 2% and slumped further to 1.9% in November 2018. In 2017 the collective underwriting loss exceeded Shs.1 billion up from 79.13 million during the same period last year which is both unprecedented and unsustainable. As at June 2018, the Industry registered a collective underwriting loss of Shs.2.66 billion.

Support by the regulator in addressing various challenges has improved the way of doing business inspiring more confidence in the market. The fraud detection unit run by IRA, Insurance Regulatory Authority, is a measure addressing one of the major challenges affecting the industry.

THE ECONOMY

The current economic environment in the country provides numerous opportunities for growth. At APA, we are excited about these developments and are positioning ourselves to take advantage of these opportunities as they arise. We are committed to matching the highest international standards of product and service delivery and believes that the quality of our people and the focus on meeting the needs of our customers will enable the Company to outperform both local peers and new entrants. As reported in the Chairman's statement we strongly believe that the Economy will continue to grow and brings opportunities that we can grow our business.

COMPANY'S PERFORMANCE

Against the back-drop of continued economic challenges and low overall growth of our business in 2018, I am pleased to see our key indicators performing well. 2018 was a very busy year that focused on expansion of our ordinary life business and strengthening our investments to deliver high and sustainable returns to all stakeholders. We focused on improving underwriting processes of the group life business for better profitability. Effort was also made in improving our processes and systems to efficiently deliver superior services to our customers.

Our ordinary life business that had challenges previously, registered an impressive revenue growth of 63% and a growth in customer retention rate of 40%. We have continued to innovate and pursue new markets especially in the microinsurance and credit life space. Out of this we have realised positive outcomes evidenced by revenue growth of 129% during the year. Our Group Life and Pension lines did not register revenue growth as projected but emerged stronger than previous year in terms of profitability. Our investment despite the interest curb and tough environment performed better giving rise to a two-digit net rate of return to our pension policyholders.

While these numbers are an important measure of our achievement we believe success goes beyond them. Customer value and experience are indisputably amongst our key success metrics. We aim to turn customer experience into a competitive differentiator. Riding on our robust IT system, we are increasing our focus on customer engagement; improving customer experience at every interaction and exploring mechanisms to settle our claims faster and more efficiently. Developing and nurturing our people is also a core element of our success. We strive to enhance employee experience and engagement as well as our corporate culture. We are continuously monitoring our employee engagement score to further support this element of success. We are actively encouraging our employees to embrace a learning mindset and acquire new knowledge and skills. We continue to actively drive innovation to accelerate growth, improve services and product that we offer to our customers as well as improve productivity and quality of our business.

CEO'S STATEMENT *(CONTINUED)*

FOR THE YEAR ENDED 31 DECEMBER 2018

NEW KEY INITIATIVES

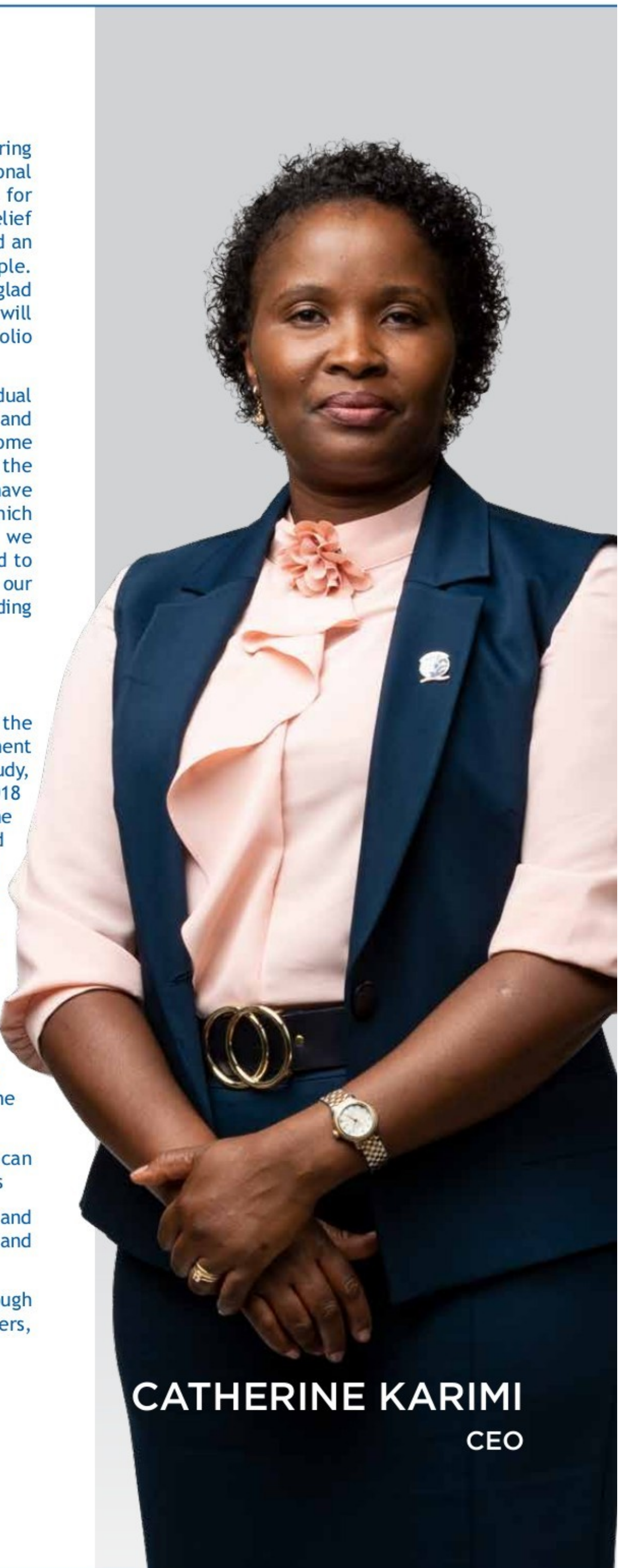
In 2018 APA launched a successful brand campaign titled 'Insuring Happiness'. The campaign launch coincided with the International Day of Happiness which is a day dedicated to inspiring action for a happier world. The campaign ads were centered on the belief that "Insurance is about people, not things" and sought to build an emotional connection by focusing on what matters most to people. This portrays APA as a happy brand that customers would be glad to associate with. This created a positive essence that we will continue to leverage to drive higher growth of our retail, portfolio where we see potential growth for our business.

To this end, we have come out with products focusing on individual and family cover cross-selling combined solutions for life and general and targeting medium-size businesses. We have come up with a package policy for schools to take advantage of the government directive that all schools should be insured. We have been strictly monitoring adherence to the customer charter which was unveiled in 2016. To enhance the customer experience, we have partially implemented a contact center which is expected to be fully operational by mid-2019. In 2018 we also amplified our efforts to build and maintain our client relationships by holding various client appreciation events across the country.

TECHNOLOGICAL & DIGITAL TRANSFORMATION

As technology disruption continues to take hold, we expect to see the insurance industry keep investing its capital in digital advancement and solutions. According to our 2018 Business Environment Study, 80% of companies indicated an increase in IT spending for 2018 and 36% reported a significant increase of greater than 15%. The role technology plays in meeting customers' changing wants and needs across generations is critical. The core of being successful in innovation is being successful in technology. It's really about listening to the customer and adapting that technology to their needs, we need to listen to the voice of the customer to be successful. We recently conducted a digital audit across the Group and found areas of opportunity to digitise our customer journeys and processes. This audit has given rise to Apollo Nirvana- our new digital strategy. Nirvana aims to propel us in just three years to become a digital leader in the market. The overarching vision for Nirvana is "Insuring happiness with seamless protection for all customers, at their fingertips". Some of the activities of the project will include:

- Web and app platforms for our customers and brokers that can be used to purchase and service multiple insurance products
- Automation of our core processes (onboarding, claims and servicing across general, life and health), eliminating paper and reducing processing times
- Use of our data to drive business value (for example through better cross-sell, more proactive retention of our customers, better management of claims cost)
- Innovative disruptions to increase our market share



CATHERINE KARIMI
CEO

CEO'S STATEMENT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

RECOGNITION AND AWARDS

APA participated in the 2018 Annual Think Business Insurance Awards whose objective is to encourage innovation and excellence in the Insurance sector by recognising, awarding and celebrating exemplary performers and successes of the sector.

APA won six awards, scooping three overall winners' positions, two 1st runners up positions and one 2nd runner up position. We took the overall winner awards in three main categories including Fraud Detection and Prevention, Best in product Distribution and Marketing and Best in Customer Satisfaction (Medical). We also received 1st runner up in Customer Service and in Claim Settlement (General) and 2nd runner up in Corporate Social Responsibility.

In a service industry like ours, a company is as good as its people. We at APA firmly adhere to this philosophy and to this end our company makes a considerable investment every year on training and development of our staff. Training is conducted through our APA academy, external facilitators and the Swiss Re e-portal. APA was also recognized by the Association of Kenya Insurers (AKI) during the annual sports day in September 2018 which saw us retain our number 1 overall position for the 6th consecutive year. This shows our commitment to the health and wellness of our staff is bearing fruit.

CORPORATE SOCIAL RESPONSIBILITY

At APA we understand that we have a responsibility to our society and we have made Corporate Social Responsibility (CSR) an integral part of our business culture. To underline our deep commitment to making a difference in people's lives, we are guided by existing policy and we commit to a substantial budgetary allocation each year to CSR initiatives through the APA Apollo Foundation. Our objective remains to support sustainable projects that uplift the standards of communities that we partner with for support.

FUTURE OUTLOOK

Kenya's economy is expected to expand by between 6.5 and 7 percent in 2019. Economic growth will also be supported by the increase in the number of mega projects under execution as well as the early impact of President Uhuru Kenyatta's Big Four Agenda. East African nations are expected to achieve between eight and nine percent expansion of the gross domestic product (GDP) in 2020. This will be largely driven by the oil and gas sub sector which will be nearing full commercial production with crude oil pipeline to Lamu expected to be under construction.

Technology investments are happening at a record pace across financial services with insurance companies being no exception. Strong financial conditions in 2018 have paved the way for an increased focus on optimising the digital experience, which directly impacts the customer experience—a driving strategy for success in the insurance industry. When it comes to embracing change, there should be no letting off the pedal. Business leaders must continually evolve longstanding practices, using new advances in technology to fuel their journey forward.

With its large population, diverse economy and an insurance penetration rate of less than 3% of GDP in the first quarter of 2018, compared to a global average of more than 6%, Kenya holds significant promise as an insurance arena. Recent years have seen the government and the industry regulator attempt to realise this potential: key measures have included the localisation of marine insurance business, the development of a micro-insurance framework, increased training for insurance agents and the promotion of technology in transacting insurance business. Juxtaposing these efforts are challenges including a lack of awareness among consumers and reputational damage caused by a number of historical insolvencies, as well as systemic weaknesses such as fraudulent claims and the frequency of delayed claims payments. An ongoing process of regulatory reform is central to tackling these obstacles. In the shorter term, solid growth forecasts for the Kenyan economy bode well for the prospects of continued premium growth in the sector.

Further, its notable that the insurance industry continues to be affected in the medium term though not negatively, by two developments. First implementation of risk based capital requirement expected to be operational by June 2020. Secondly the proposed adoption of IFRS 9 and 17 with effect from 1st January 2018 and 2021 respectively will bring in radical changes from the current reporting system. Further this is expected to put focus on various aspect of business processes and investment decisions.

APPRECIATION

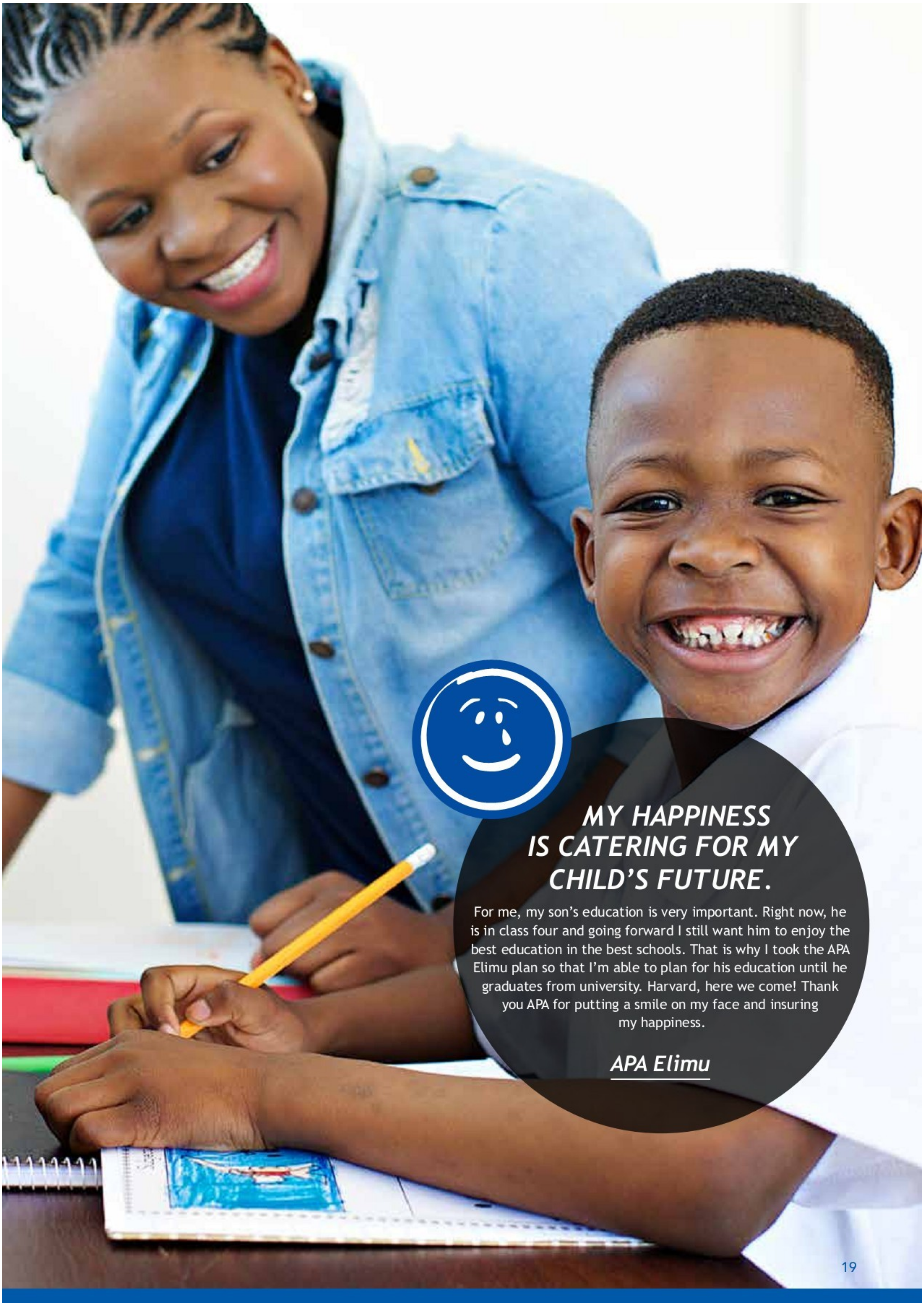
The contributions of APA's various stakeholders have ensured that continued strong performance is achieved. These are none other than our business partners, intermediaries and customers. I would like to thank you for your continued support and loyalty, which have been instrumental in reinforcing APA's position as the financial services provider to reckon with in the Kenyan insurance market.

I also thank all our staff across the country who continue to show dedication and provide superior service to our customers. I would also like to acknowledge with appreciation my colleagues in the management and the Board directors for their diligence, guidance and support that has ensured that we achieve superior and excellent results during the year.

CATHERINE KARIMI

Chief Executive Officer

12 March 2019



MY HAPPINESS IS CATERING FOR MY CHILD'S FUTURE.

For me, my son's education is very important. Right now, he is in class four and going forward I still want him to enjoy the best education in the best schools. That is why I took the APA Elimu plan so that I'm able to plan for his education until he graduates from university. Harvard, here we come! Thank you APA for putting a smile on my face and insuring my happiness.

APA Elimu

CORPORATE GOVERNANCE STATEMENT

INTRODUCTION

Good corporate governance is key to the integrity of corporations, financial institutions and markets and is central to the health of our economies and their stability. Corporate governance plays a leading role in making certain how corporations and their boards and management are directed, controlled and held to account. Corporate governance therefore encompasses the systems, practices and procedures by which the individual corporation regulates itself in order to remain competitive, ethical, sustainable and fair.

The Board of APA Life Assurance Limited follows principles of openness, integrity and accountability in its stewardship of the Company's affairs. It recognises the developing nature of corporate governance and assesses the Company's compliance with generally accepted corporate governance practice on a regular basis, directly and through its Board committees and Management. The role of the Board is to ensure conformance by focusing on and providing the Company overall strategic direction and policy-making as well as performance review through accountability and ensuring appropriate monitoring and supervision. The Board is also responsible for the overall system of internal control and for reviewing its effectiveness. The controls are designed to both safeguard the Company's assets and ensure the reliability of financial information.

A senior management team, comprising executive directors and senior managers meets regularly to consider issues of operational and strategic importance to the Company.

Below are the key features of the existing corporate governance practices within the Company which are reviewed and improved on a regular basis:

1. BOARD OF DIRECTORS

The Board of Directors consists of eight directors out of whom three are independent non-executive directors. The Chairman of the Board is a non-executive director and the Board meets formally at least four times a year.

The Board is responsible for setting the direction of the Company through the establishment of strategic objectives, key policies and the approval of budgets. It monitors the implementation of strategies and policies through a structured approach to reporting by executive management and consequent accountability.

The directors are actively involved in and bring strong independent judgement on Board deliberations and discussions. These directors have a wide range of knowledge and experience of local and international markets that is applied to the formulation of strategic objectives and decision making.

All directors have access to the advice and services of the Company Secretary and are entitled to obtain independent professional advice on the Company's affairs.

To assist the Board in the discharge of its responsibilities, Board committees have been established. All the Board committees meet at least four times a year. The committees are as follows: -

(a) Audit and Risk Committee

The audit and risk committee comprises four non-executive directors and the executive director. The committee is responsible for, inter alia, developing and advising on audit and financial controls and compliance issues of the Company. It also defines the scope of the internal audit function and acts as a liaison between the external auditors and management. The current members of the committee are R Schnarwiler (Chairman), P Shah, R M Ashley, D M Ndonye and A K M Shah.

(b) Information and Communication Technology (ICT) Committee

The ICT committee comprises one non-executive director, the professional nominated under shareholder's agreement and the executive director. The committee provides guidance to the Board on ICT requirements for the Company, provides assurance that the ICT systems in place are able to generate accurate and timely management reports and also reviews ICT budgets and recommends for their adoption by the Board. The committee also ensures that there are business continuity plans in place for the Company. The current members of the committee are P H Shah (Chairman), P Shah and A K M Shah.

(c) Investment Committee

The Board has an investment committee comprising three non-executive directors, board advisor and the executive director. This committee is responsible for determining the Company's overall investment strategy and monitoring its implementation. The current members of the committee are R M Ashley (Chairman), D M Ndonye, S M Shah, P H Shah and A K M Shah.

CORPORATE GOVERNANCE STATEMENT *(CONTINUED)*

1. BOARD OF DIRECTORS (CONTINUED)

(d) Remuneration Committee

The remuneration committee currently consists of three non-executive directors and the Executive Director. Its primary objective is to ensure that the right calibre of management is recruited and retained and set guidelines for remuneration of staff. The non-executive directors on the committee are responsible for agreeing the terms of service in respect of the executive directors.

The committee is also responsible for ensuring that the terms and conditions of service for management and staff is fair, appropriate and reflect the market conditions. The current members of the committee are D M Ndonye (Chairman), R Schnarwiler, P J Shah and A K M Shah.

2. INTERNAL CONTROLS

The Company has implemented and maintains internal controls designed to provide reasonable assurance as to the integrity and reliability of the financial statements and to adequately safeguard and maintain accountability of the Company's assets. Such controls are based on established policies and procedures and are implemented by trained personnel with appropriate segregation of duties. The effectiveness of the system of internal controls is monitored regularly through internal audit function, operational meetings and the annual external audit.

3. RELATED PARTY TRANSACTIONS AND DIRECTORS' REMUNERATION

The related parties' transactions with the group companies during the year ending, 31 December 2018 are detailed under note 35 of these annual report and financial statements.

The remuneration for non-executive directors consists of fees and sitting allowances for their services in connection with the Board and committee meetings. These fees and allowances are approved by the members at the annual general meetings.

The aggregate amount of directors' remuneration for services rendered during the year ending 31 December 2018 are contained under note 31 of these annual report and financial statements.

4. SOCIAL AND ENVIRONMENTAL RESPONSIBILITIES

The Board is conscious of the Company's social and environmental responsibilities. Particular attention is given to projects with a long time positive impact to the society and environment. These include employees' welfare programmes, education and health activities, empowering the youth and provision of clean and safe drinking water. The Company encourages staff to participate and actively supports them in various causes.

5. GOING CONCERN

The directors confirm that the Company has adequate resources to continue in business for the foreseeable future and therefore the continued use of going concern as a basis of preparing the financial statements is appropriate.

RICHARD M. ASHLEY	**ASHOK SHAH**
Chairman	**Director**
12 March 2019	**12 March 2019**

CORPORATE SOCIAL RESPONSIBILITY

Ashok Shah - Apollo Group CEO during construction of a sand dam to support households.

> 'As an insurance company, we provide essential services to the community'

We play a role in connecting people with each other, with other communities and key community services. The operation of our services touches on all members of the community with the potential to positively impact on their quality of life. We also operate from a significant number of properties and have a responsibility to those living and working nearby as well as being a significant employer; directly employing 353 staff.

Our relationships with the local communities we serve are therefore very important to us and are an essential part of the growth of our business. When developing our products and services, we have a role to play in improving services for the community as a whole and not just our individual customers.

Our objective remains to support sustainable projects that uplift the standards of communities that we partner with for support.

The Group's corporate social responsibility programs focus on four key pillars:

1. Sustainable clean water supply to communities
2. Empowering the youth
3. Education and health activities
4. Environment conservation.

APA APOLLO FOUNDATION

APA Apollo Foundation, previously known as 'Amini Poa Maji Maisha,' is the umbrella trust that is funded by APA Apollo Group and contributes towards the construction of sand dams. The trust has been in existence since 2006 and has constructed 22 sand dams in arid and semi-arid areas of Kenya (Machakos, Makueni and Kajiado)

The strategic goal is to enhance food security for all in society by providing communities in semi-arid areas, accessibility to reliable water supply. This is achieved by the construction of sand dams on dry river beds to harness the water that only flows during rainy seasons. The water is retained in the sand that is deposited behind the dam. An artisan well with a hand pump is provided for easy access by the community. The natural filtration through the sand gives clean drinking water that is used both for agriculture and household.

CORPORATE SOCIAL RESPONSIBILITY *(CONTINUED)*

In 2018, the communities partnered with APA staff members and the Utooni Development Organization; a non-government organisation that specializes in the construction of sand dams and built the two dams that will support these households in the long term.

These dams are located in Imarat, Kajiado and Ikalaasa, Machakos respectively. The Ikalaasa project was a special one as the Khimasia Family partnered with the foundation to fund and build the dam in celebration of their 100 year anniversary in Kenya.

Some of the key objectives that the projects have met include:

- Enhancing water and food security for the communities
- Increasing accessibility to clean water
- Increase in food supply
- Reducing commuting for long distance to fetch water for women and the children
- Ensuring that the community at large is able to participate in other income-generating activities as long hours spent in fetching water have been reduced.

YOUTH INITIATIVE PROGRAMMES APA / APOLLO BURSARY FUND

Catherine Karimi - APAL Chief Executive Officer handing over a cheque to Cheleta primary school towards the bursary programme

The APA bursary scheme was created to educate the top achieving boy and girl from Cheleta Primary School and hailing from Githongoro slums in the outskirts of Runda. The bursary fund currently in its 13th year and has 12 students in the bursary program.

Cheleta School's overall performance has greatly improved since the bursary program was introduced with the average score rising to above 50%. This is due to competition amongst the pupils. The bursary caters for secondary education tuition and necessary personal effects.

RECREATION THROUGH SPORTS

APA promotes sporting activities by supporting the Runda Youth Sports Association (RYSA) football team. The sponsorship includes the fees for RYSA to participate in various leagues and provides the football kits, for logistics and team allowances.

The RYSA football team participates in the Nairobi County league which is under the Football Kenya Federation. Overall the team is in sixth place in a league of 13 teams. In addition, APA organizes tournaments for the team in order to boost and continue to nurture the soccer talents and positively engage the youth in Mji wa Huruma and Githongoro villages.

ENVIRONMENT CONSERVATION

APA team at the annual 'Run for Mau' marathon

Our commitment to protecting and conserving the environment is core to our business and it is our objective to plant and maintain at least 1,500 trees every year. In partnership with Egerton University, we have created the Ngongogeri Park and every year we plant 1500 seedlings with our staff and Egerton students. We are also key partners and sponsors in the annual Run for Mau marathon in which we have participated for 6 consecutive years.

Through the APA Apollo Foundation sand dam projects, we ask the benefiting communities to plant trees along the river beds to help curb soil erosion, provide food as well as beautifying the landscape. A minimum of ten trees is allocated for planting and maintenance to each household that benefits from the sand dam.

We have partnered with "Friends of Karura" and "Greenline Project" to plant trees in both the Karura forest and Nairobi National park in an effort to curb urban encroachment.

Environment conservation has also been embraced at the departmental level by the APA staff through the annual departmental CSR activities.

DIRECTORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2018

The directors submit their report together with the audited financial statements for the year ended 31 December 2018, which disclose the state of affairs of APA Life Assurance Limited (the "Company").

INCORPORATION

The Company is incorporated in Kenya under the Kenyan Companies Act as a private company limited by shares, and is domiciled in Kenya. The address and the registered office is set out in page 6.

BUSINESS REVIEW

The principal activity of the Company is the transaction of general insurance business.

The key risk that the Company faces is insurance risk which arises from the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim.

RESULTS

	2018 Shs'000	2017 Shs'000
(Loss) / profit before income tax	(22,198)	(59,702)
Income tax credit /(expense)	(8,398)	(6,643)
(Loss) / profit for the year	(30,596)	(66,345)
Other comprehensive income/ (loss)	(1,413)	40,195
Total comprehensive (loss) /income	**(32,009)**	**(26,150)**

DIVIDEND

The net loss for the year amounting to Shs 32,009,000 (2017: Shs 26,150,000) has been deducted from retained earnings. The directors do not recommend payment of dividends (2017: Nil).

DIRECTORS

The directors who held office during the year and to the date of this report are set out on page 6.

DISCLOSURE TO AUDITORS

The directors confirm that with respect to each director at the time of approval of this report:

(a) there was, as far as each director is aware, no relevant audit information of which the Company's auditor is unaware; and

(b) each director had taken all steps that ought to have been taken as a director so as to be aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

TERMS OF APPOINTMENT OF AUDITORS

PricewaterhouseCoopers continue in office in accordance with the Company's Articles of Association and Section 719 of the Kenyan Companies Act, 2015.

The directors monitor the effectiveness, objectivity and independence of the auditor. This responsibility includes the approval of the audit engagement contract and the associated fees on behalf of the shareholders.

By order of the Board

P.H SHAH

Company Secretary

12 March 2019

STATEMENT OF DIRECTORS' RESPONSIBILITIES
FOR THE YEAR ENDED 31 DECEMBER 2018

The Kenyan Companies Act 2015 requires the directors to prepare financial statements for each financial year which give a true and fair view of the financial position of the Company at the end of the financial year and its profit or loss for the year then ended. The directors are responsible for ensuring that the Company keeps proper accounting records that are sufficient to show and explain the transactions of the Company; disclose with reasonable accuracy at any time the financial position of the Company; and that enables them to prepare financial statements of the Company that comply with prescribed financial reporting standards and the requirements of the Kenyan Companies Act 2015. They are also responsible for safeguarding the assets of the Company and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors accept responsibility for the preparation and presentation of these financial statements in accordance with International Financial Reporting Standards and in the manner required by the Kenyan Companies Act 2015. They also accept responsibility for:

i. Designing, implementing and maintaining internal control as they determine necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error;

ii. selecting suitable accounting policies and then apply them consistently; and

iii. Making judgements and accounting estimates that are reasonable in the circumstances

Having made an assessment of the Company's ability to continue as a going concern, the directors are not aware of any material uncertainties related to events or conditions that may cast doubt upon the Company's ability to continue as a going concern.

The directors acknowledge that the independent audit of the financial statements does not relieve them of their responsibility.

Approved by the Board of Directors on 12 March 2019 and signed on its behalf by:

RICHARD M. ASHLEY
Chairman

ASHOK SHAH
Director

REPORT OF THE CONSULTING ACTUARY TO THE SHAREHOLDERS OF APA LIFE ASSURANCE LIMITED
FOR THE YEAR ENDED 31 DECEMBER 2018

I have conducted an actuarial valuation of the insurer's insurance liabilities as at 31 December 2018.

The valuation was conducted in accordance with generally accepted actuarial principles and in accordance with the requirements of the Insurance Act Cap 487 of the Laws of Kenya. Those principles require that prudent principles for future outgo under contracts, generally based upon the assumptions that current conditions will continue. Provision is therefore not made for all possible contingencies.

In completing the actuarial valuation, I have relied upon the audited financial statements of the Company.

In my opinion, the insurer's insurance liabilities of the Company were adequate as at 31 December 2018.

G T Waugh

GILES T WAUGH, FASSA, FIA
Independent Actuarial Consultant

12 March 2019

INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF APA LIFE ASSURANCE LIMITED
FOR THE YEAR ENDED 31 DECEMBER 2018

Report on audit of the financial statements

Opinion

We have audited the accompanying financial statements of APA Life Assurance Limited (the "Company"), set out on pages 30 to 76 which comprise the statement of financial position as at 31 December 2018, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

In our opinion, the financial statements give a true and of fair view of the financial position of APA Life Assurance Limited at 31 December 2018, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act, 2015.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Kenya, and we have fulfilled our ethical responsibilities in accordance with these requirements and the IESBA Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the Company financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Valuation of insurance contract liabilities	
Insurance contract liabilities as disclosed in Notes 23 to the financial statements are of significant magnitude (Shs 1,039 million) to the overall financial statements. There are several methods which can be adopted in the determination of these reserves which are underpinned by a series of assumptions, and which are also subject to the requirements of the Insurance Act in Kenya. Changes in these assumptions can lead to significant changes in actuarial liabilities. The methodology used can also have a material impact on the valuation of the liabilities. The valuation of insurance contract liabilities was considered a key audit matter due to magnitude of the balance and the estimation uncertainty involved in determining the liabilities.	We engaged our actuarial specialists to assess the reasonableness of the actuarial assumptions, including the consideration and challenge of management's rationale for the judgments applied. Our audit work included: • evaluating the reasonableness of the methodology and assumptions used by comparing them against regulatory requirements, recognised actuarial practices and industry standards; and • obtaining audit evidence in respect of the key data inputs into the estimation process.

Other information

The other information comprises the information included in the annual report other than the financial statements and our auditor's report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF APA LIFE ASSURANCE LIMITED (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2018

Report on audit of the financial statements (continued)

Responsibility of the directors for the financial statements

The directors are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act, 2015 and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.
- If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF APA LIFE ASSURANCE LIMITED (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2018

Report on audit of the financial statements (continued)

Report on other matters prescribed by the Kenyan Companies Act, 2015

In our opinion the information given in the report of the directors on page 24 is consistent with the financial statements.

PricewaterhouseCoopers

Certified Public Accountants
Nairobi **29 March 2019**

CPA Bernice Kimacia – Practising Certificate No 1457.

Signing Partner responsible for the Independent Audit.

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2018

	Notes	Long term business Shs'000	Sharehold-ers' funds Shs'000	2018 Total Shs'000	Long term business Shs'000	Sharehold-ers' funds Shs'000	2017 Total Shs'000
Gross earned premium	3	962,812	-	962,812	907,579	-	907,579
Reinsurance premium ceded		(495,813)	-	(495,813)	(548,176)	-	(548,176)
Net earned premium		**466,999**	**-**	**466,999**	**359,403**	**-**	**359,403**
Investment income	4	427,681	52,564	480,245	376,449	37,543	413,992
Commissions earned		106,069	-	106,069	113,745	-	113,745
Total income		**1,000,749**	**52,564**	**1,053,313**	**849,597**	**37,543**	**887,140**
Claims and policyholders' benefits	5	(626,056)	-	(626,056)	(568,720)	-	(568,720)
Operating and other expenses	6	(262,457)	(11,511)	(273,968)	(223,025)	(10,740)	(233,765)
Commissions payable		(175,487)	-	(175,487)	(144,357)	-	(144,357)
Total claims and expenses		**(1,064,000)**	**(11,511)**	**(1,075,511)**	**(936,102)**	**(10,740)**	**(946,842)**
Profit /(loss) before income tax		**(63,251)**	**41,053**	**(22,198)**	**(86,505)**	**26,803**	**(59,702)**
Income tax credit / (expense)	8(a)	(8,398)	-	(8,398)	(6,643)	-	(6,643)
Profit /(loss) for the year		**(71,649)**	**41,053**	**(30,596)**	**(93,148)**	**26,803**	**(66,345)**
Items that may be reclassified subsequently to profit or loss:							
-fair value gain from quoted equities	12	-	-	-	23,919	9	23,928
-fair value loss on unquoted equities	13	(1,413)	-	(1,413)	-	-	-
-fair value gain on government securities	17(b)	-	-	-	12,969	3,298	16,267
Total other comprehensive income for the year		**(1,413)**	**-**	**(1,413)**	**36,888**	**3,307**	**40,195**
Total comprehensive (loss) /income		**(73,062)**	**41,053**	**(32,009)**	**(56,260)**	**30,110**	**(26,150)**
Appropriated as follows:							
-To revaluation reserves		-	-	-	-	3,307	3,307
-To retained earnings		-	41,053	41,053	-	26,803	26,803
-To statutory reserves		(73,062)	-	(73,062)	(56,260)	-	(56,260)
Total comprehensive (loss) / income		**(73,062)**	**41,053**	**(32,009)**	**(56,260)**	**30,110**	**(26,150)**

The notes on pages 50 to 76 form on intergral part of these financial statements

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2018

	Notes	2018 Shs'000	2017 Shs'000
Assets			
Intangible asset	10	5,183	10,367
Motor vehicle and equipment	9	16,908	13,176
Investment properties	11	155,000	273,000
Quoted equity investments – available for sale	12 (a)	-	195,119
Quoted equity investments - FVTPL	12 (b)	222,700	-
Unquoted equity investments	13	7,557	8,970
Life policy loans		3,067	2,240
Other loans receivables		8,245	-
Investment in unit trust	14	11,257	15,729
Reinsurers' share of insurance liabilities	15	103,882	124,546
Receivables arising from direct insurance arrangements		109,823	75,358
Current income tax	8(b)	14,794	13,690
Other receivables	16	60,923	44,450
Government securities - at amortised cost	17(a)	2,543,054	2,618,122
Government securities - available for sale	17(b)	-	658,058
Government securities – FVTPL	17(c)	770,804	-
Commercial paper and corporate bonds	18	184,855	185,116
Deposits with financial institutions	19	1,031,841	423,327
Cash and bank balances		65,151	21,492
Total assets		**5,315,044**	**4,682,760**
Equity and Reserves			
Share capital	20	700,000	550,000
Investment revaluation reserve		-	7,412
Retained earnings	21	(194,646)	(134,466)
Total shareholders' funds		505,354	422,946
Statutory reserve	22	43,145	23,399
Total equity and reserves		**548,499**	**446,345**
Liabilities			
Insurance contract liabilities	23	1,039,706	984,800
Payables under deposit administration contracts	25	3,497,314	3,115,339
Payables arising from reinsurance arrangements		86,482	22,297
Other payables	26	124,618	103,952
Deferred income tax	27	18,425	10,027
Total liabilities		**4,766,545**	**4,236,415**
Total equity and liabilities		**5,315,044**	**4,682,760**

The financial statements on pages 30 to 76 were approved and authorised for issue by the board of directors on 12 March 2019 and were signed on its behalf by:

RICHARD M. ASHLEY
Chairman

ASHOK SHAH
Director

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2018

The notes on pages 50 to 76 form on intergral part of these financial statements

	Share capital Shs'000	Invest-ment re-valuations Shs'000	Retained earnings Shs'000	Total Share-holders' funds Shs'000	Statutory reserves Shs'000	Total equity & re-serves Shs'000
Year Ended 31 December 2017						
Balance as at 1 January 2017	**450,000**	**4,105**	**(89,450)**	**364,655**	**7,840**	**372,495**
Issue of new shares	100,000	-	-	100,000	-	100,000
Total comprehensive income for the year	-	3,307	26,803	30,110	(56,260)	(26,150)
Transfer from shareholders to long-term business	-	-	(71,819)	(71,819)	71,819	-
Balance as at 31 December 2017	**550,000**	**7,412**	**(134,466)**	**422,946**	**23,399**	**446,345**
Year Ended 31 December 2018						
As Previously Reported	550,000	7,412	(134,466)	422,946	23,399	446,345
Day 1 reclassification of cumulative AFS reserve on equities	-	(7,412)	7,412	-	-	-
Changes on initial application of IFRS 9	-	-	(840)	(840)	(14,997)	(15,837)
At the start of the year (restated)	**550,000**	**-**	**(127,894)**	**422,106**	**8,402**	**430,508**
Issue of new shares	150,000	-	-	150,000	-	150,000
Total comprehensive income for the year	-	-	41,053	41,053	(73,062)	(32,009)
Transfer from retained earnings to statutory reserve		-	(107,805)	(107,805)	107,805	-
Balance as at 31 December 2018	**700,000**	**-**	**(194,646)**	**505,354**	**43,145**	**548,499**

The notes on pages 50 to 76 form on intergral part of these financial statements

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2018

	Notes	2018 Shs'000	2017 Shs'000
Cash flows from operating activities			
Cash generated from operations	28 (a)	32,046	109,071
Interest received		465,887	367,448
Income tax paid	8 (b)	(1,104)	(511)
Net cash inflow from operating activities		**496,829**	**476,008**
Cash flows from investing activities			
Purchase of equipment	9	(8,258)	(4,371)
Proceeds from disposal of fixed assets		-	465
Proceeds from disposal of quoted shares		52,641	253,983
Proceeds from disposal of investment property	11	128,000	47,000
Purchase of quoted shares	12	(117,995)	(75,969)
Net investment in unit trusts		(4,471)	(520)
Net loans advanced		(8,245)	-
Net policy loans recovered		(827)	(185)
Net investment in corporate bonds		260	(39,657)
Net placement in deposit with financial institutions		(638,543)	-
Net investment in government securities		(22,194)	(843,338)
Net cash outflow from investing activities		**(619,632)**	**(662,592)**
Cash flows from financing activities			
Issue of new shares	20	150,000	100,000
Net cash inflow from financing activities		**150,000**	**100,000**
Increase/(Decrease) in cash and cash equivalents		**27,197**	**(86,584)**
Movement in cash and cash equivalents :			
At start of year		444,819	531,403
Increase/ (Decrease)		27,197	(86,584)
At end of year	28 (b)	**472,016**	**444,819**

The notes on pages 50 to 76 form on intergral part of these financial statements

ACCOUNTING POLICIES
FOR THE YEAR ENDED 31 DECEMBER 2018

1 Summary of significant accounting policies

(a) Basis of preparation

The company financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS)

(a) Basis of measurement

The measurement basis used is the historical cost basis except where otherwise stated in the accounting policies below.

For those assets and liabilities measured at fair value, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When measuring the fair value of an asset or a liability, the company uses market observable data as far as possible. If the fair value of an asset or a liability is not directly observable, it is estimated by the company using valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs (e.g. by use of the market comparable approach that reflects recent transaction prices for similar items or discounted cash flow analysis). Inputs used are consistent with the characteristics of the asset / liability that market participants would take into account.

(b) Use of estimates

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the company financial statements are disclosed in note 1(t).

(b) Changes in accounting policy and disclosures

(i) New and amended standards adopted by the Company

The Company has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2018.

IFRS 9 - Financial Instruments

The Company has adopted IFRS 9 as issued by the IASB in July 2014 with a date of transition of 1 January 2018, which resulted in changes in accounting policies and adjustments to the amounts previously recognised in the financial statements. The Company did not early adopt any of IFRS 9 in previous periods.

As permitted by the transitional provisions of IFRS 9, the Company elected not to restate comparative figures. Any adjustments to the carrying amounts of financial assets and financial liabilities at the date of transition were recognised in the opening retained earnings and other reserves of the current period. As a result, the comparative information provided continues to be accounted for in accordance with the company's previous accounting policy.

The adoption of IFRS 9 has resulted in changes in our accounting policies for recognition, classification and measurement of financial assets and financial liabilities and impairment of financial assets. IFRS 9 also significantly amends other standards dealing with financial instruments as IFRS 7 'Financial Instruments: Disclosures'.

Set out below are disclosures relating to the impact of the adoption of IFRS 9 on the Company.

ACCOUNTING POLICIES *(CONTINUED)*
FOR THE YEAR ENDED 31 DECEMBER 2018

1 Summary of significant accounting policies (continued)

(b) Changes in accounting policy and disclosures (continued)

(i) New and amended standards adopted by the Company (continued)

IFRS 9 - Financial Instruments (continued)

(a) Classification and measurement of financial instruments

	Classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39	New carrying amount under IFRS 9
			Shs '000	Shs '000
Financial assets				
Equity investments – quoted	FVTOCI	FVTPL	195,119	195,119
Policy loans	Loans and receivables	Amortised cost	2,240	2,233
Other receivables	Loans and receivables	Amortised cost	44,450	44,450
Reinsurance receivable share of liabilities	Loans and receivables	Amortised cost	124,546	123,618
Other receivables arising from direct insurance arrangements	Loans and receivables	Amortised cost	75,358	66,497
Government securities	Held to maturity	Amortised cost	2,618,122	2,615,504
Corporate bonds	Held to maturity	Amortised cost	185,116	184,472
Deposits with financial institutions	Held to maturity	Amortised cost	423,327	420,570
Cash and bank balances	Held to maturity	Amortised cost	21,492	21,470
Government securities	FVTOCI	FVTPL	658,058	658,058
Investments in Unit Trusts	FVTOCI	FVTPL	15,729	15,729
Unquoted equity investments	FVTOCI	FVTOCI	8,970	8,970
Total financial assets			**4,372,527**	**4,356,690**

ACCOUNTING POLICIES (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2018

1 Summary of significant accounting policies (continued)

(b) Changes in accounting policy and disclosures (continued)

(i) New and amended standards adopted by the Company (continued)

IFRS 9 - Financial Instruments (continued)

(b) Reconciliation of statement of financial position balances from the IAS 39 to IFRS 9:

The Company performed a detailed analysis of its business models for managing financial assets and analysis of their cash flow characteristics.

The following table reconciles the carrying amount of financial assets, from their previous measurement categories in accordance with IAS 39 as at 31 December 2017 to the new measurement categories under IFRS 9 on 1 January 2018:

	IAS 39 carrying amount 31 December 2017	Reclassifica-tions	Remeasure-ments	IFRS 9 carrying amount 1 January 2018
	Shs '000	Shs '000	Shs '000	Shs '000
Financial assets at amortised cost				
Loans receivables	2,240	-	(7)	2,233
Receivables arising out of direct insurance arrangements	75,358	-	(8,861)	66,497
Other receivables	44,450	-	-	44,450
Reinsurers' share of insurance liabilities and reserves	124,546	-	(928)	123,618
Government securities:	2,618,122	-	(2,618)	2,615,504
Deposits with financial institutions	423,327	-	(2,757)	420,570
Commercial paper and bonds	185,116	-	(644)	184,472
Cash and Bank	21,492		(22)	21,470
Total financial assets at amortised cost	**3,494,651**	**-**	**(15,837)**	**3,478,814**
Financial assets at FVTPL				
Quoted Equity	-	195,119	-	**195,119**
Government securities	-	658,058		**658,058**
Investments in Unit Trusts	-	15,729	-	**15,729**
Total financial assets at FVTPL	**-**	**868,906**	**-**	**868,906**
Financial assets through OCI				
Quoted Equity	195,119	(195,119)	-	-
Government securities	658,058	(658,058)	-	-
Investments in Unit Trusts	15,729	(15,729)	-	-
Unquoted equity investments	8,970	-	-	**8,970**
Total financial assets at FVOCI	**877,876**	**(868,906)**	**-**	**8,970**
Total financial assets	**4,372,527**	**-**	**(15,837)**	**4,356,690**

ACCOUNTING POLICIES (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2018

1 Summary of significant accounting policies (continued)

(b) Changes in accounting policy and disclosures (continued)

(ii) New and amended standards adopted by the Company (continued)

IFRS 9 - Financial Instruments (continued)

Designation of equity investments at fair value through other comprehensive income (FVOCI):

The Company has elected to irrevocably designate unquoted equity investments at FVOCI as permitted under IFRS 9. The changes in fair value of these investments cannot be reclassified to profit or loss when they are disposed of.

Reconciliation of impairment allowance balance from IAS 39 to IFRS 9

The following table reconciles the prior period's closing impairment allowance measured in accordance with IAS 39 incurred loss model to the new impairment allowance measured in accordance with the IFRS 9 expected loss model at 1 January 2018:

Financial asset	Impairment under IAS 39	Reclassifications	Remeasurements	Expected Credit Loss under IFRS 9
	Shs'000	Shs'000	Shs'000	Shs'000
Loans receivables	-	-	(7)	(7)
Receivables arising out of direct insurance arrangements	-	-	(8,861)	(8,861)
Other receivables	-	-	-	-
Reinsurers' share of insurance liabilities and reserves	-	-	(928)	(928)
Government securities at amortised cost	-	-	(2,618)	(2,618)
Deposits with financial institutions	-	-	(2,757)	(2,757)
Commercial paper and bonds	-	-	(644)	(644)
Cash and Bank	-	-	(22)	(22)
Total	**-**	**-**	**(15,837)**	**(15,837)**

ACCOUNTING POLICIES (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2018

1. Summary of significant accounting policies (continued)

(b) Changes in accounting policy and disclosures (continued)

New standards and interpretations not yet adopted

- Amendment to IFRS 1 (Annual Improvements to IFRSs 2014–2016 Cycle, issued in December 2016) - The amendment, applicable to annual periods beginning on or after 1 January 2018, deletes certain short-term exemptions and removes certain reliefs for first-time adopters.
- Amendments to IAS 40 titled *Transfers of Investment Property* (issued in December 2016) – The amendments, applicable to annual periods beginning on or after 1 January 2018, clarify that transfers to or from investment property should be made when, and only when, there is evidence that a change in use of property has occurred.
- IFRS 17 Insurance Contracts (issued in May 2017) The new standard, effective for annual periods beginning on or after 1st January 2021, establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts issued. It also requires similar principles to be applied to reinsurance contracts held and investment contracts with discretionary participation features issued. The objective is to ensure that entities provide relevant information in a way that faithfully represents those contracts. The Company does not issue insurance contracts

The Directors do not plan to apply any of the above until they become effective. Based on their assessment of the potential impact of application of the above, with the exception of IFRS 16 and IFRS 17, they do not expect that there will be a significant impact on the Company's financial statements. There are no other standards that are not yet effective that would be expected to have a material impact on the entity in the current or future reporting periods and on near future transactions

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Company.

(c) Revenue recognition

(i) Revenue

For long term insurance business, premiums are recognised as revenue when they become payable by the policyholder. For single premium business, revenue is recognised on the date on which the policy is effective. Premiums are shown before deduction of commission. Long term business relates to the underwriting of risks relating to death of an insured person, and includes contracts subject to the payment of premiums for a term dependent on the termination or continuance of the life of an insured person

(ii) Other income

Commissions receivable are recognised as income in the period in which they are earned.

Interest income is recognised on a time proportion basis that takes into account the effective yield on the asset.

Dividends receivable are recognised as income in the period in which the right to receive payment is established.

Rental income from operating leases is recognised on a straight line basis over the term of the lease.

(d) Claims incurred

Claims and policyholders' benefits payable comprise claims paid in the year and changes in the provision for insurance contract liabilities. Claims are recorded as an expense when they are incurred. Claims arising on maturing policies are recognised when the claims become due for payment. Death claims are accounted for on notification while surrenders are accounted for on payment.

ACCOUNTING POLICIES (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2018

1. Summary of significant accounting policies (continued)

(e) Deposit administration contracts

The Company administers the funds of a number of retirement benefit schemes. The Company's liabilities in relation to these schemes have been treated as payables in the statement of financial position. The liabilities with respect to the deposit administration contracts are determined by the Consulting Actuary on an annual basis.

(f) Insurance contract liabilities

The Company issues contracts that transfer insurance risk or financial risk or both. Insurance contracts are those contracts that transfer significant insurance risk. Such contracts may also transfer financial risk. As a general guideline, the Company defines as significant insurance risk the possibility of having to pay benefits on the occurrence of an insured event that are at least 10% more than the benefits payable if the insured event did occur.

Insurance contract liabilities represent the estimated ultimate cost of settling all claims arising from incidents occurring prior to the end of the reporting period, but not settled at that date. Insurance contract liabilities are computed on the basis of the best information available at the time the records for the year are closed, and include provisions for claims intimated but not paid. Insurance contract liabilities are not discounted.

(g) Reinsurance

The Company assumes and cedes reinsurance in the normal course of business, with retention limits varying by line of business. Ceded reinsurance arrangements do not relieve the Company from its obligations to policyholders. Premiums on reinsurance assumed are recognised as income in the same manner as they would be if the reinsurance were considered direct business. Premiums ceded and claims reimbursed are presented on a gross basis in profit and loss and statement of financial position as appropriate. Reinsurance assets represent balances due from reinsurance companies. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision or settled claims associated with the reinsurer's policies and are in accordance with the related reinsurance contract.

Impairment occurs when there is objective evidence as a result of an event that occurred after initial recognition of the reinsurance asset that the Company may not receive all outstanding amounts due under the terms of the contract and the event has a reliably measurable impact on the amounts that the Company will receive from the reinsurer. The impairment loss is recognised in the profit or loss.

The Company also assumes reinsurance risk in the normal course of business for life insurance and non-life insurance contracts where applicable.

Reinsurance assets or liabilities are derecognized when the contractual rights are extinguished or expire or when the contract is transferred to another party. Premiums and claims on assumed reinsurance are recognised as revenue or expenses in the same manner as they would be if the reinsurance were considered direct business, taking into account the product classification of the reinsured business. Reinsurance liabilities represent balances due to reinsurance companies. Amounts payable are estimated in a manner consistent with the related reinsurance contract.

(h) Equipment

All equipment are initially recorded at cost less depreciation and any accumulated impairment losses. The useful lives used in determining depreciation charge are:

Computer equipment	3 years
Motor vehicles	4 years
Furniture fittings and equipment	8 years

The residual values of items of equipment and their estimated useful lives are reviewed at the reporting date and adjusted if appropriate. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

Gains and losses on disposal of property and equipment are determined by reference to their carrying amounts.

ACCOUNTING POLICIES (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2018

1. Summary of significant accounting policies (continued)

(i) Intangible assets – Computer software

Intangible assets comprise of computer software costs which are stated at cost less accumulated amortisation and any impairment losses. Amortisation is calculated to write off the cost of computer software on a straight line basis over its estimated useful life of five years.

(j) Investment properties

Investment properties comprises land and buildings held to earn rentals and/or for capital appreciation. They are carried at fair value, determined at the reporting date by valuation experts with experience and knowledge of the locations where the properties are located. Fair value is based on active market prices as adjusted, if necessary, for any difference in the nature, condition or location of the specific asset.

Investment properties are not subject to depreciation. Changes in their carrying amount between end of reporting periods are dealt with, through profit or loss for the year. Upon disposal of an investment property, the difference between the net disposal proceeds and the carrying amount is charged or credited to profit or loss for the year.

(k) Financial instruments

From 1 January 2018, the Company classifies its financial assets in the following measurement categories:

- Those to be measured subsequently at fair value through either OCI or through profit or loss, and
- Those to be measured at amortised cost.

The classification depends on the Company's business model for managing the financial assets and the collateral terms of the cash flows

For assets measured at fair value, gains and losses will be recorded in profit or loss. For investments in unquoted equity instruments that are not held for trading, the Company has made an irrevocable election at the time of initial recognition to account for them at fair value through other comprehensive income (FVOCI).

The Company reclassifies debt investments when and only when its business model for managing those assets changes.

(i) Recognition and derecognition

Regular purchases and sales of financial assets are recognised on the trade-date, the date on which the Company commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership.

(ii) Measurement

At initial recognition, the Company measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVTPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

Debt instruments

Subsequent measurement of debt instruments depends on the Company's business model for managing the asset and the cash flow characteristics of the asset. There are two measurement categories into which the Company classifies its debt instruments:

- **Amortised cost:** Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/ (losses) together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the statement of profit or loss.

ACCOUNTING POLICIES (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2018

1. Summary of Significant accounting policies (continued)

(k) Financial instruments (continued)

(ii) Measurement (continued)

Debt instruments (continued)

FVTPL: Assets that do not meet the criteria for amortised cost are measured at FVTPL. A gain or loss on a debt investment that is subsequently measured at FVTPL is recognised in profit or loss.

Equity instruments

The Company subsequently measures quoted equity investments at fair value. Changes in the fair value of financial assets at FVTPL are recognised in other gains/ (losses) in the statement of profit or loss as applicable.

The Company's subsequently measures all equity investments at fair value through profit or loss, except where the Company's management has elected, at initial recognition, to irrevocably designate an equity investment at fair value through other comprehensive income. The Companys policy is to designate equity investments as FVOCI when those investments are held for purposes other than to generate investment returns. When this election is used, fair value gains and losses are recognised in OCI and are subsequently reclassified to profit or loss, including on disposal. Impairment losses (and reversals of impairment losses) are not reported separately from other changes in fair values. Dividends, when representing a return on such investments, continue to be recognised in profit or loss as other income when the Company's right to receive payment is established.

Gains and losses on equity investments at FVPL are included in the "Net trading income" line in the statement of profit or loss

(iii) Determination of fair value

For financial instruments traded in active markets, the determination of fair values of financial assets and financial liabilities is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This includes listed equity securities and quoted debt instruments on major exchanges (NSE). The quoted market price used for financial assets held by the Company is the current bid price.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. If the above criteria are not met, the market is regarded as being inactive.

For example, a market is inactive when there is a wide bid-offer spread or significant increase in the bid-offer spread or there are few recent transactions.

For all other financial instruments, fair value is determined using valuation techniques. In these techniques, fair values are estimated from observable data in respect of similar financial instruments, using models to estimate the present value of expected future cash flows or other valuation techniques, using inputs existing at the dates of the statement of financial position.

Fair values are categorised into three levels in a fair value hierarchy based on the degree to which the inputs to the measurement are observable and the significance of the inputs to the fair value measurement in its entirety:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Transfers between levels of the fair value hierarchy are recognised by the Company at the end of the reporting period during which the change occurred.

ACCOUNTING POLICIES (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2018

1. Summary of Significant accounting policies (continued)

(k) Financial instruments (continued)

(iv) Impairment

From 1 January 2018, the Company assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

Prior to 1 January 2018, the Company would assess at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Company about the following events:

- significant financial difficulty of the issuer or debtor
- a breach of contract, such as a default or delinquency in payments
- it becoming probable that the issuer or debtor will enter bankruptcy or other financial reorganisation
- the disappearance of an active market for that financial asset because of financial difficulties; or
- observable data indicating that there is a measurable decrease in the estimated future cash flow from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the Company, including:
- An adverse change in the payment status of issuers or debtors in the Company; or
- National or local economic conditions that correlate with defaults on the assets in the Company.

IFRS 9 replaced the previous 'incurred loss' model in IAS 39 with a forward-looking 'expected credit loss' ("ECL") model. The new impairment model applies to the following financial instruments that are not measured at FVTPL or FVTOCI:

- Government securities measured at amortised cost
- Receivables arising from reinsurance arrangements
- Other receivables.
- Loans receivable
- Corporate bonds and commercial paper;
- Deposits with financial institutions; and
- Cash and bank balances.

No impairment loss is recognised on equity investments and financial assets measured at FVTPL. The Company recognises loss allowance at an amount equal to either 12-month ECLs or lifetime ECLs. Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument, whereas 12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date.

The Company will recognise loss allowances at an amount equal to lifetime ECLs, except in the following cases, for which the amount recognised will be 12-month ECLs:

- Debt instruments that are determined to have low credit risk at the reporting date. The Company will consider a debt instrument to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment-grade' and investments in Government securities; and
- Other financial instruments (other than trade receivables) for which credit risk has not increased significantly since initial recognition.

Loss allowances for receivables arising from reinsurance arrangements and other receivables will always be measured at an amount equal to lifetime ECLs. The impairment requirements of IFRS 9 require management judgement, estimates and assumptions, particularly in the following areas, which are discussed in detail below:

- assessing whether the credit risk of an instrument has increased significantly since initial recognition; and Incorporating forward-looking information into the measurement of ECLs.

ACCOUNTING POLICIES (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2018

1. Summary of Significant accounting policies (continued)

(k) Financial instruments (continued)

(iv) Impairment (continued)

Measurement of expected credit losses

ECLs are a probability-weighted estimate of credit losses and will be measured as follows:

- Financial assets that are not credit-impaired at the reporting date: the present value of all cash shortfalls – i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive;
- Financial assets that are credit-impaired at the reporting date: the difference between the gross carrying amount and the present value of estimated future cash flows;

An asset is credit-impaired if one or more events have occurred that have a detrimental impact on the estimated future cash flows of the asset. The following are examples of such events:

i. Significant financial difficulty of the issuer or the borrower;

ii. A breach of contract - e.g. a default or past-due event;

iii. A lender having granted a concession to the borrower - for economic or contractual reasons relating to the borrower's financial difficulty - that the lender would not otherwise consider;

iv. It becoming probable that the borrower will enter bankruptcy or other financial reorganisation;

v. The disappearance of an active market for that financial asset because of financial difficulties; or

vi. The purchase of a financial asset at a deep discount that reflects the incurred credit losses.

Expected credit losses

Expected credit losses are computed as a product of the Probability of Default (PD), Loss Given Default (LGD) and the Exposure at Default (EAD).

ECL = PD x LGD x EAD

In applying the IFRS 9 impairment requirements, the Company follows the general approach method.

Definition of the general approach

Under the general approach, at each reporting date, the Group determines whether the financial asset is in one of three stages in order to determine both the amount of ECL to recognise as well as how interest income should be recognised.

- **Stage 1** - where credit risk has not increased significantly since initial recognition. For financial assets in stage 1, the Group will recognise 12 month ECL and recognise interest income on a gross basis – this means that interest will be calculated on the gross carrying amount of the financial asset before adjusting for ECL.
- **Stage 2** - where credit risk has increased significantly since initial recognition. When a financial asset transfers to stage 2, the Group will recognise lifetime ECL but interest income will continue to be recognised on a gross basis.
- **Stage 3** - where the financial asset is credit impaired. This is effectively the point at which there has been an incurred loss event. For financial assets in stage 3, the Group will continue to recognise lifetime ECL but they will now recognise interest income on a net basis. As such, interest income will be calculated based on the gross carrying amount of the financial asset less ECL.

The changes in the loss allowance balance are recognised in profit or loss as an impairment gain or loss.

ACCOUNTING POLICIES (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2018

1. Summary of Significant accounting policies (continued)

(k) Financial instruments (continued)

(iv) Impairment (continued)

Definition of default

The Company will consider a financial asset to be in default when:

- The counterparty or borrower is unlikely to pay their credit obligations to the Company in full, without recourse by the Company to actions such as realising security (if any is held); or
- The counterparty or borrower is more than 90 days past due on any material credit obligation to the Company and 2 years for receivables arising form reinsurance arrangements. This will be consistent with the rebuttable criteria set out by IFRS 9 and existing practice of the Company; or
- In assessing whether the counterparty or borrower is in default, the Company considers indicators that are:
- Qualitative: e.g. Breach of covenant and other indicators of financial distress;
- Quantitative: eg. Overdue status and non-payment of another obligation of the same issuer to the Company; and
- Based on data developed internally and obtained from external sources.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances to reflect changes in circumstances.

Significant increase in credit risk (SIICR)

When determining whether the credit risk (i.e. risk of default) on a financial instrument has increased significantly since initial recognition, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis based on the Group's historical experience, expert credit assessment and forward-looking information.

The Company primarily identifies whether a significant increase in credit risk has occurred for an exposure by comparing:

- The remaining lifetime probability of default (PD) as at the reporting date; with
- The remaining lifetime PD for this point in time that was estimated on initial recognition of the exposure.

The assessment of significant deterioration is key in establishing the point of switching between the requirement to measure an allowance based on 12-month expected credit losses and one that is based on lifetime expected credit losses.

The Company monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:

- the criteria are capable of identifying significant increases in credit risk before an exposure is in default;
- the criteria do not align with the point in time when an asset becomes 30 days past due;
- the average time between the identification of a significant increase in credit risk and default appears reasonable;
- exposures are not generally transferred from 12-month ECL measurement to credit-impaired; and
- there is no unwarranted volatility in loss allowance from transfers between 12-month and lifetime ECL measurements.

ACCOUNTING POLICIES (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2018

1. Summary of Significant accounting policies (continued)

(k) Financial instruments (continued)

Incorporation of forward-looking information

The Company incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since initial recognition and its measurement of ECL. It formulates a 'base case' view of the future direction of relevant economic variables and a representative range of other possible forecast scenarios based on advice from the Group risk committee and economic experts and consideration of a variety of external actual and forecast information. This process involves developing two or more additional economic scenarios and considering the relative probabilities of each outcome. External information includes economic data and forecasts published by governmental bodies and monetary authorities in the countries where the company operates, supranational organisations such as the Organisation for Economic Cooperation and Development and the International Monetary Fund, and selected private-sector and academic forecasters.

The base case represents a best estimate and is aligned with information used by the Company for other purposes, such as strategic planning and budgeting. The other scenarios represent more optimistic and more pessimistic outcomes. The Company also periodically carries out stress-testing of more extreme shocks to calibrate its determination of these other representative scenarios.

Measurement of ECL

The key inputs into the measurement of ECL are the term structures of the following variables:

- Probability of Default
- Loss given default (LGD); and
- Exposure at default (EAD).

To determine lifetime and 12-month PDs, the Company uses the PD tables supplied by S&P based on the default history of obligors with the same credit rating. The Company adopts the same approach for unrated investments by mapping its internal risk grades to the equivalent external credit ratings. The PDs are recalibrated based on current bond yields and CDS prices, and adjusted to reflect forward-looking information. Changes in the rating for a counterparty or exposure lead to a change in the estimate of the associated PD.

LGD is the magnitude of the likely loss if there is a default. The Company estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset. For loans secured by mortgage property, loan-to-¬value ratios are a key parameter in determining LGD. LGD estimates are recalibrated for different economic scenarios. They are calculated on a discounted cash flow basis using the effective interest rate as the discounting factor.

EAD represents the expected exposure in the event of a default. The Company derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract, including amortisation, and prepayments. The EAD of a financial asset is its gross carrying amount.

As described above, and subject to using a maximum of a 12-month PD for financial assets for which credit risk has not significantly increased, the Group measures ECL considering the risk of default over the maximum contractual period (including any borrower's extension options) over which it is exposed to credit risk, even if, for risk management purposes, the Group considers a longer period. Where modelling of a parameter is carried out on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics, which include:

- instrument type;
- credit risk grading;
- collateral type;
- date of initial recognition;
- remaining term to maturity; industry; and
- geographic location of the borrower.

The groupings are subject to regular review to ensure that exposures within a particular group remain appropriately homogeneous. When ECL are measured using parameters based on collective modelling, a significant input into the measurement of ECL is the external benchmark information that the Company uses to derive the default rates of its portfolios.

ACCOUNTING POLICIES (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2018

1. Summary of Significant accounting policies (continued)

(k) Financial instruments (continued)

Accounting policies applied until 31 December 2017

The Company has applied IFRS 9 retrospectively, but has elected not to restate comparative information. As a result, the comparative information provided continues to be accounted for in accordance with the Company's previous accounting policy.

(i) Classification

Until 31 December 2017, the Company classified its financial assets in the following categories:

- Loans and receivables,
- Held-to-maturity investments, and
- Fair value through other comprehensive income

The classification depended on the purpose for which the investments were acquired.

Management determined the classification of its investments at initial recognition and, in the case of assets classified as held-to-maturity, re-evaluated this designation at the end of each reporting period.

(ii) Reclassification

The Company could choose to reclassify a non-derivative trading financial asset out of the held for trading category if the financial asset was no longer held for the purpose of selling it in the near term. Financial assets other than loans and receivables were permitted to be reclassified out of the held for trading category only in rare circumstances arising from a single event that was unusual and highly unlikely to recur in the near term. In addition, the Company could choose to reclassify financial assets that would meet the definition of loans and receivables out of the held for trading category if the Company had the intention and ability to hold these financial assets for the foreseeable future or until maturity at the date of reclassification.

Reclassifications were made at fair value as of the reclassification date. Fair value became the new cost or amortised cost as applicable, and no reversals of fair value gains or losses recorded before reclassification date were subsequently made. Effective interest rates for financial assets reclassified to loans and receivables and held-to-maturity categories were determined at the reclassification date. Further increases in estimates of cash flows adjusted effective interest rates prospectively.

(iii) Subsequent measurement

The measurement at initial recognition did not change on adoption of IFRS 9, see description above.

Subsequent to the initial recognition, loans and receivables and held-to-maturity investments were carried at amortised cost using the effective interest method.

Financial assets at FVTPL were subsequently carried at fair value. Gains or losses arising from changes in the fair value were recognised in profit or loss within other gains/(losses)

(iv) Impairment

The Company assessed at the end of each reporting period whether there was objective evidence that a financial asset or group of financial assets was impaired. A financial asset or a group of financial assets was impaired and impairment losses were incurred only if there was objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) had an impact on the estimated future cash flows of the financial asset or group of financial assets that could be reliably estimated.

ACCOUNTING POLICIES (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2018

1. Summary of Significant accounting policies (continued)

(l) Translation of foreign currencies

(i) Functional and presentation currency

Items included in the financial statements of each of the Company's entities are measured using the currency of the primary economic environment in which the entity operates (the 'functional currency').The financial statements are presented in Kenya shillings rounded to the nearest thousand ("Shs"), which is the Company's presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss, except when deferred in other comprehensive income as qualifying cash flow hedges and qualifying net investment hedges.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the statement of profit or loss within finance income or costs'. All other foreign exchange gains and losses are presented in the statement of profit or loss within other (losses)/gains.

(m) Accounting for leases

Leases of assets where a significant proportion of the risks and rewards of ownership are retained by the Company as a lessee are classified as finance leases. All other leases are classified as operating leases. Payments made under operating leases are charged to profit or loss for the year on the straight-line basis over the term of the lease.

(n) Employee entitlements

Employee entitlements to long service awards are recognised when they accrue to employees. A provision is made for the estimated liability for such entitlements as a result of services rendered by employees up to the reporting date. The estimated monetary liability for employees' accrued annual leave entitlement at the reporting date is recognised as an expense accrual.

(o) Income tax expense

Income tax expense is the aggregate amount charged/(credited) in respect of current income tax and deferred income tax in determining the profit or loss for the year. Tax is recognised in the profit or loss except when it relates to items recognised in other comprehensive income, in which case it is also recognised in other comprehensive income, or to items recognised directly in equity, in which case it is also recognised directly in equity.

Current income tax

Current income tax is the amount of income tax payable on the taxable profit for the year, and any adjustment to tax payable in respect of prior years, determined in accordance with the Kenyan Income Tax Act.

Deferred income tax asset

Deferred income tax is provided in full on all temporary differences except those arising on the initial recognition of an asset or liability, other than a business combination, that at the time of the transaction affects neither the accounting nor taxable profit nor loss. Deferred income tax is determined using the liability method on all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes, using tax rates and laws enacted or substantively enacted at the balance sheet date and expected to apply when the related deferred income tax asset is realized or the deferred tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which temporary differences can be utilized.

ACCOUNTING POLICIES (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2018

1. Summary of Significant accounting policies (continued)

(p) Retirement benefit obligations

The Company operates a defined contribution scheme for its employees. The assets of the scheme are held in a separate trustee administered fund, which is funded from contributions from both the Company and employees. Contributions are determined by the rules of the scheme.

The Company also contributes to the statutory defined contribution pension scheme, the National Social Security Fund (NSSF). Contributions to this scheme are determined by local statute. The Company's obligations to these schemes are charged to profit or loss in the year they fall due.

(q) Dividend distribution

Dividend distributions to the Company's shareholders are recognised as a liability in the financial statements in the year in which the dividends are approved by the shareholders.

(r) Share capital

Ordinary shares are recognised at par value and classified as 'share capital' in equity. Any amounts received over and above the par value of the shares issued are classified as 'share premium' in equity.

Incremental costs directly attributable to the issue of new ordinary shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Shares are classified as equity when there is no obligation to transfer cash or other assets.

(s) Bonus stabilisation reserve

The bonus stabilisation reserve represents amount of surplus set aside to allow for smoothening of return of interest declaration for the deposit administration schemes based on the recommendation of the independent actuarial consultant.

(t) Critical accounting judgements and key sources of estimation uncertainty

In the process of applying the Company's accounting policies, management has made estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(i) Critical judgments in applying the Company's accounting policies

The key areas of judgment in applying the Company's accounting policies are dealt with as follows:

Future benefit payments from long-term insurance contracts

The estimation of future benefit payments from long-term insurance contracts is one of the Company's most critical accounting estimates. There are several sources of uncertainty that need to be considered in the estimate of the liability that the Company will ultimately pay for such claims.

The determination of the liabilities under long-term insurance contracts is dependent on estimates made by the Company. Estimates are made as to the expected number of deaths for each of the years in which the Company is exposed to risk. The Company bases these estimates on standard mortality tables that reflect historical mortality experience. The estimated number of deaths determines the value of the benefit payments and the value of the valuation premiums. The main source of uncertainty is that epidemics such as AIDS could result in future mortality being significantly worse than in the past for the age Company's in which the Company has significant exposure to mortality risk.

ACCOUNTING POLICIES (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2018

1. Summary of Significant accounting policies (continued)

(i) Critical judgments in applying the Company's accounting policies (continued)

Future benefit payments from long-term insurance contracts (continued)

However, continuing improvements in medical care and social conditions could result in improvements in longevity in excess of those allowed for in the estimates used to determine the liability for contracts where the Company is exposed to longevity risk. For contracts without fixed terms and with discretionary participation in profits, it is assumed that the Company will be able to increase mortality risk charges in future years in line with emerging mortality experience. Estimates are also made as to future investment income arising from the assets backing long-term insurance contracts. These estimates are based on current market returns as well as expectations about future economic and financial developments. The average estimated rate of investment return is 11.83%p.a. (2017: 11.50% p.a)

Valuation of investment property

Estimates are made in determining valuations of investment properties. The management uses experts in determination of the values to adopt. In performing the valuation the valuer uses discounted cash flow projections which incorporate assumptions around the continued demand for rental space, sustainability of growth in rent rates as well as makes reference to recent sales. The independent valuers also use the highest and best use principle in determining the value of Investment property. The change in these assumptions could result in a significant change in the canying value of investment property.

Management monitors the investment property market and economic conditions that may lead to significant change in fair value and conducts a formal and independent property valuation every year and adjusts the recorded fair values accordingly for any significant change.

Calculation of loss allowances

The measurement of the expected credit loss allowance for financial assets measured at amortised cost and FVOCI is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of customers defaulting and the resulting losses).

Key sources of estimation uncertainty

Impairment losses

At the reporting date, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash generating unit to which the asset belongs.

A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

- Determining the criteria for significant increase in credit risk;
- Choosing appropriate models and assumptions for the measurement of ECL;
- Establishing the number and relative weightings for a forward-looking scenarios for each type of product / market and associated ECL; and
- Establishing groups of similar assets for the purposes of measuring ECL.

If the PD rates on the financial assets had been 5% higher or lower as at 31 December 2018, the loss allowance would have been Shs 0.4 million higher/lower.

Equipment

Critical estimates are made by the Company's directors, in determining depreciation rates and useful lives for equipment

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

1 INCORPORATION AND REGISTERED OFFICE

APA Life Assurance Limited is a limited liability company incorporated in Kenya under the Kenyan Companies Act and domiciled in Kenya. The parent company, which is the ultimate holding company is Apollo Investments Limited which is incorporated in Kenya. The address of its registered office is 07 Apollo Centre, Ring Road Parklands, Westlands, Nairobi.

2 RISK MANAGEMENT OBJECTIVES AND POLICIES

The Company's activities expose it to a variety of risks, including insurance risk, financial risk, credit risk, and the effects of changes in property values, debt and equity market prices, foreign currency exchange rates and interest rates. The Company's overall risk management programme focuses on the identification and management of risks and seeks to minimize potential adverse effects on its financial performance, by use of underwriting guidelines and capacity limits, reinsurance planning, credit policy governing the acceptance of clients, and defined criteria for the approval of intermediaries and reinsurers. Investment policies are in place which help manage liquidity, and seek to maximize return within an acceptable level of interest rate risk. The Company manages key risks as follows:

2.1 1nsurance risk management

The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, this risk is random and therefore unpredictable.

For a portfolio of insurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk that the Company faces under its insurance contracts is that the actual claims and benefit payments exceed the carrying amount of the insurance liabilities. This could occur because the frequency or severity of claims and benefits are greater than estimated. Insurance events are random and the actual number and amount of claims and benefits will vary from year to year from the level established using statistical techniques. Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability of the expected outcome will be. In addition, a more diversified portfolio is less likely to be affected across the board by a change in any subset of the portfolio.

The Company has developed its insurance underwriting and investment strategy to diversify the type of risks accepted and within each of these categories to achieve a sufficiently large population of risks to reduce the variability of the expected outcome. Factors that aggravate insurance risk include lack of risk diversification in terms of type and amount of risk, geographical, local and type of industry covered.

The Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Company's financial performance. It manages these positions within an asset-liability management (ALM) framework that has been developed to achieve investment returns in excess of obligations under insurance contracts. The Company produces regular reports at portfolio, legal entity and asset and liability class level that are circulated to the Company's key management personnel. The principal technique of the Company's ALM framework is to match assets to the liabilities arising from insurance contracts by reference to the type of benefits payable to contract holders. Separate portfolios of assets are maintained for with-profit business, non-linked non-profit business, and unit-linked business. For the purposes of the ALM framework, the Company does not manage the fund for future appropriations as a liability. The Company's ALM is also integrated with the management of the financial risks associated with the Company's other financial assets and liabilities not directly associated with insurance and investment liabilities. The Company does not use hedge accounting.

The Company has not changed the processes used to manage its risks from previous periods. The notes below explain how insurance risks are managed using the categories utilized in the Company's ALM framework.

Under certain contracts, the Company has offered guaranteed annuity options. In determining the value of these options, estimates have been made as to the percentage of contract holders that will exercise them. There is not enough historical information available on which to base these estimates.

NOTES TO THE FINANCIAL STATEMENTS *(CONTINUED)*
FOR THE YEAR ENDED 31 DECEMBER 2018

2 RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

2.1 1nsurance risk management (continued)

The table below shows the contractual timing of undiscounted cash flows arising from assets and liabilities included in the company's ALM framework for management of long term insurance contracts as at 31 December 2018.

	Total	No stated maturity	0-1 year	1-5 years	>5 years
	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
Financial assets					
Debt securities:					
-Government bonds and treasury bills fixed rate					
- at amortized cost	3,864,992	-	337,226	1,230,579	2,297,187
- at fair value	770,804	770,804	-	-	-
Listed securities-fixed rate	215,280	-	74,979	140,301	-
Equity securities:					
- Listed	222,700	222,700	-	-	-
- Unlisted	7,557	7,557	-	-	-
Investment in unit trusts	12,101	-	7,261	4,840	-
Life policy loans, other loans and receivables from reinsurance contracts	115,194	103,882	3,067	8,245	-
Receivables arising from direct insurance arrangements	109,823	-	109,823	-	-
Other receivables	60,923	-	60,923	-	-
Cash and cash equivalents	1,096,992	-	1,096,992	-	-
Total	**6,476,366**	**1,104,943**	**1,690,271**	**1,383,965**	**2,297,187**
Liabilities:					
Insurance contracts	1,039,706	-	1,039,706	-	-
Payables arising from reinsurance arrangements	86,482	-	86,482	-	-
Payables under deposit insurance contracts	3,497,314	3,497,314	-	-	-
Other liabilities	124,618	-	124,618	-	-
Total	**4,748,120**	**3,497,314**	**1,250,806**	**-**	**587,468**
Difference in contractual cash flows	**1,728,246**	**(2,392,371)**	**439,465**	**1,383,695**	**2,297,187**

NOTES TO THE FINANCIAL STATEMENTS *(CONTINUED)*
FOR THE YEAR ENDED 31 DECEMBER 2018

2 RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

2.1 1nsurance risk management (continued)

The table below shows the contractual timing of discounted cash flows arising from assets and liabilities included in the company's Asset Liability Management framework for management of long term insurance contracts movement as at 31 December 2017.

	Total	No stated maturity	0-1 Year	1-5 years	>5 years
	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
Financial assets					
Debt securities:					
-Government bonds and treasury bills fixed rate					
- at amortised cost	3,827,775	-	720,845	559,920	2,547,010
- at fair value	658,058	658,058	-	-	-
Listed securities-fixed rate	236,375	-	95,741	140,634	-
Equity securities:					
- Listed	195,119	195,119	-	-	-
- Unlisted	8,970	8,970			
Investment in unit trusts	15,729	-	-	15,729	-
Life policy loans and receivables from reinsurance contracts	126,786	124,546	2,240	-	-
Receivables arising from direct insurance arrangements	84,579	-	84,579	-	-
Other receivables	44,450	-	44,450	-	-
Cash and cash equivalents	444,819	-	444,819	-	-
Total	**5,642,660**	**986,693**	**1,392,674**	**716,283**	**2,547,010**
Liabilities:					
Insurance contracts	984,800	35,000	984,800	-	-
Payables arising from reinsurance arrangements	22,297	-	22,297	-	-
Payables under deposit insurance contracts	3,115,339	3,115,339	-	-	-
Other liabilities	103,952	-	103,952	-	-
Total	**4,126,388**	**3,150,339**	**1,111,049**	**-**	**-**
Difference in contractual cash flows	**1,416,272**	**(2,163,646)**	**281,625**	**716,283**	**2,547,010**

NOTES TO THE FINANCIAL STATEMENTS *(CONTINUED)*
FOR THE YEAR ENDED 31 DECEMBER 2018

2 RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

2.1 1nsurance risk management (continued)

Long-term insurance contracts

(a) Frequency and severity of claims

For contracts where death is the insured risk, the most significant factors that could increase the overall frequency of claims are epidemics (such as AIDS, TB and a human form of avian flu) or widespread changes in lifestyle, such as eating, smoking and exercise habits, resulting in earlier or more claims than expected. For contracts where survival is the insured risk, the most significant factor is continued improvement in medical science and social conditions that would increase longevity.

At present, these risks do not vary significantly in relation to the location of the risk insured by the Company. However, undue concentration by amounts could have an impact on the severity of benefit payments on a portfolio basis.

The table below presents the concentration of insured benefits across five bands of insured benefits per individual life assured. The benefit insured figures are shown gross and net of the reinsurance contracts described above. At year-end, none of these insurance contracts had triggered a recovery under the reinsurance held by the Company.

These tables do not include annuity contracts, for which a separate analysis is reported further below.

All amounts in KSh'000	Total Benefits Insured		
Benefits assured per life assured at the end of 2018	**Before Reinsurance**		**After Reinsurance**
	Shs '000	**%**	**Shs '000**
0-500	44,060	11%	44,060
500-1,000	20,374	5%	20,374
1,000-3,000	93,389	23%	55,000
3,000-5,000	55,851	14%	14,000
5,000-10,000	94,646	24%	13,000
Above 10,000	91,672	23%	6,000
Total	**399,992**	**100%**	**152,434**

All amounts in KSh'000	Total Benefits Insured		
Benefits assured per life assured at the end of 2017	**Before Reinsurance**		**After Reinsurance**
	Shs '000	**%**	**Shs '000**
0-500	44,359	13%	44,359
500-1,000	20,498	6%	20,498
1,000-3,000	91,873	26%	49,000
3,000-5,000	124,454	36%	32,000
5,000-10,000	32,162	9%	5,000
Above 10,000	35,800	10%	3,000
Total	**349,146**	**100%**	**153,857**

NOTES TO THE FINANCIAL STATEMENTS *(CONTINUED)*
FOR THE YEAR ENDED 31 DECEMBER 2018

2 RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

2.1 1nsurance risk management (continued)

Long-term insurance contracts (continued)

(a) Frequency and severity of claims (continued)

The following tables for annuity insurance contracts illustrates the concentration of risk based on five bands that group these contracts in relation to the amount payable per annum as if the annuity were in payment at the year end. The Company does not hold any reinsurance contracts against the liabilities carried for these contracts.

Annuity payable in Shs per annum per life insured at the end of 2018

All amounts in KSh'000	Shs '000	%
0-50	526	1%
51-100	4,120	8%
101-200	9,509	19%
201-500	18,167	37%
501-1,000	13,635	27%
Over 1,000	3,916	8%
Total	49,873	100%

All amounts in KSh'000

Annuity payable in Shs per annum per life insured at the end of 2017

0-50	526	1%
51-100	4,198	8%
101-200	9,738	19%
201-500	17,825	34%
501-1,000	15,924	30%
Over 1,000	3,916	8%
Total	**52,128**	**100%**

NOTES TO THE FINANCIAL STATEMENTS *(CONTINUED)*
FOR THE YEAR ENDED 31 DECEMBER 2018

2 RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

2.2 Financial risk management

The Company is exposed to a range of financial risks through its financial assets, financial liabilities (investment contracts and borrowings), reinsurance assets and policyholder liabilities. In particular, the key financial risk is that the proceeds from financial assets are not sufficient to fund the obligations arising from insurance policies and investment contracts as they fall due. The most important components of this financial risk are market risk (including interest rate risk, equity price risk and currency risk), credit risk and liquidity risk.

These risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. The risks that the Company primarily faces due to the nature of its investments and liabilities are interest rate risk and equity price risk.

(a) Market risks

(i) Interest rate risk

Interest rate risk arises primarily from investments in fixed interest securities. In addition to the extent that claims costs are related to interest rates, liabilities to policyholders are exposed to interest rate risk. Insurance and non-profit investment contracts have benefit payments that are fixed and guaranteed at the inception of the contract. The financial component of these benefits is usually a guaranteed fixed interest rate (for the insurance contracts, this rate may apply to maturity and/or death benefits) and hence the company's primary financial risk on these contracts is the risk that interest income and capital redemptions from the financial assets backing the liabilities are insufficient to fund the guaranteed benefits payable.

The Company monitors interest rate risk by calculating the mean duration of the investment portfolio and of the liabilities to policyholders under insurance and investment contracts. The mean duration is an indicator of the sensitivity of the assets and liabilities to changes in current interest rates. The mean duration of the liabilities is determined by means of projecting expected cash flows from the contracts using best estimates of mortality and voluntary terminations. This is calculated in a consistent manner with the prior year. Any gap between the mean duration of the assets and the estimated mean duration of the liabilities is minimised by means of buying and selling fixed interest securities of different durations.

The sensitivity analysis for interest rate risk illustrates how changes in the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates at the reporting date. For the guaranteed element of liabilities under with-profits contracts, changes in interest rate will not cause a change to the amount of the liability because their carrying amounts are not affected by the level of market interest rates. However, the with profits element of the liabilities is directly affected by changes in the level of interest rates to the extent that they affect the carrying amount of the assets held in the with-profits funds.

The Company's management monitors the sensitivity of reported interest rate movements on a monthly basis by assessing the expected changes in the different portfolios.

Interest bearing securities represent 92% (2017: 95%) of total investments. If interest rates in market indices had increased / decreased by a further 5%, with all other variables held constant, and all the company's investments moving according to the historical correlation with the index, income would increase / decrease by Shs 227.3 million (2017: Shs 194 million).

(ii) Equity price risk

The Company is exposed to equity securities price risk as a result of its holdings in equity investments, classified as financial assets available for sale. Exposures to individual companies and to equity shares in aggregate are monitored in order to ensure compliance with the relevant regulatory limits for solvency purposes. Investments held are listed and traded on the Nairobi Stock Exchange.

NOTES TO THE FINANCIAL STATEMENTS *(CONTINUED)*
FOR THE YEAR ENDED 31 DECEMBER 2018

2 RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

2.2 Financial risk management (continued)

(ii) Equity price risk (continued)

The Company has a defined investment policy which sets limits on the Company's exposure to equities both in aggregate terms and by geography, industry and counterparty. This policy of diversification is used to manage the company's price risk arising from its investments in equity securities. Investment management meetings are held daily. At these meetings, senior investment managers meet to discuss investment return and concentration across the company.

The sensitivity analysis for equity risk illustrates how changes in the fair value of equity securities will fluctuate because of changes to market prices, whether those changes are caused by factors specific to the individual equity issuer, or factors affecting all similar equity securities traded in the market.

Listed equities securities represent 97% (2017: 96%) of total equity investments. If equity market indices had increased / decreased by a further 5%, with all other variables held constant, and all the company's equity investments moving according to the historical correlation with the index, equity would increase / decrease by Shs 11.1 million (2017: Shs 9.7 million).

(iii) Currency risk

Foreign currency exchange risk arises when future commercial transactions or recognised assets and liabilities are denominated in a currency that is not the entity's functional currency. The Company primarily transacts in the Kenya shilling and its assets and liabilities are denominated in the same currency. The company is therefore not exposed to currency risk.

(b) Credit risk

Credit risk is the risk that a counterparty will be unable to pay amounts in full when due. Key areas where the company is exposed to credit risk are:

- reinsurers' share of insurance liabilities and reserves;
- amounts due from reinsurers in respect of claims already paid;
- amounts due from insurance contract holders;
- amounts due from insurance intermediaries;
- amounts due from corporate bond issuers and
- amount held with financial institutions - under cash and cash equivalents

The Company manages the levels of credit risk it accepts by placing limits on its exposure to a single counterparty, or companies of counterparties and to geographical and industry segments. Such risks are subject to regular review. Limits on the level of credit risk by category and territory are approved quarterly by the board of directors.

Reinsurance is used to manage insurance risk. This does not, however, discharge the Company of its liability as the primary insurer. If a reinsurer fails to pay a claim, the company remains liable for the payment to the policyholder. The creditworthiness of reinsurers is considered on an annual basis by reviewing their financial strength prior to finalization of any contract. In addition, management assesses the creditworthiness of all reinsurers and intermediaries by reviewing credit grades provided by rating agencies and other publicly available financial information. The recent payment history of reinsurers is also used to update the reinsurance purchasing strategy.

NOTES TO THE FINANCIAL STATEMENTS *(CONTINUED)*
FOR THE YEAR ENDED 31 DECEMBER 2018

2 RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

2.2 Financial risk management (continued)

(b) Credit risk (continued)

Management information reported to the directors include details of provisions for impairment on receivables and subsequent write offs. Internal audit makes regular reviews to assess the degree of compliance with the company's procedures on credit. Exposures to individual policyholders and groups of policyholders are within the ongoing monitoring of the controls associated with regulatory solvency. Where there exists significant exposure to individual policyholders or homogenous groups of policyholders, a financial analysis is carried out by the management. The Company's assets bearing credit risk are summarized below:

	Gross carrying amounts	Provision of Impairments	Net of impairment provision	
	2018	2018	2018	2017
	Shs '000	Shs '000	Shs '000	Shs '000
Investment in unit link	11,257	-	11,257	15,729
Government securities	3,316,404	(2,546)	3,313,858	3,276,180
Reinsurers share of insurance liabilities	104,662	(780)	103,882	124,546
Receivables arising from direct insurance arrangements	120,046	(10,223)	109,823	75,358
Life policy & other loans	11,322	(10)	11,312	2,240
Other receivables	60,923	-	60,923	44,450
Corporate bonds and commercial paper	185,499	(644)	184,855	185,116
Deposits with financial institutions	1,040,373	(8,532)	1,031,841	423,327
Cash and bank	65,216	(65)	65,151	21,492
Total assets bearing credit risk	4,915,702	(22,800)	4,892,902	4,168,438

The concentration of credit risk is substantially unchanged compared to prior year. No credit limits were exceeded during the period. The amounts that are past due and not impaired are as shown below:

Receivables arising from direct insurance arrangements	109,823	75,358
Life policy & other loans	11,012	2,240
Other receivables	60,923	44,450
Total assets past due but not impaired	181,758	122,048

The assets reported above include Shs 11.3 million (2017: Shs 15.7 million) related to the assets backing unit linked contracts. The holders of these contracts bear the credit risk arising from these assets. The assets above also include assets held in the with-profits funds where the company is able to transfer part of the credit risk arising from these assets to holders of with-profits investment and insurance contracts to the extent that the future level of discretionary bonuses can be reduced to absorb any associated credit losses (as well as losses arising from all other financial risks). During the year, there was no financial assets that were impaired.

(c) Liquidity risk

Liquidity risk is the risk that cash may not be available at a reasonable cost to pay obligations as they fall due. The primary liquidity risk of the Company is the obligation to pay claims to policyholders as they fall due. The projected settlement of these liabilities is modelled, on a regular basis, using actuarial techniques. The board sets limits on the minimum proportion of maturing funds available to meet such calls and on the minimum level of borrowing facilities that should be in place to cover anticipated liabilities and unexpected levels of demand.

NOTES TO THE FINANCIAL STATEMENTS (*CONTINUED*)
FOR THE YEAR ENDED 31 DECEMBER 2018

2 RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

2.2 Financial risk management (continued)

(c) Liquidity risk (continued)

The table below provides the contractual maturity analysis of the Company's financial liabilities at 31 December 2018:

	No stated maturity	Less than 1 year	More than 1 year	Total
	Sh'000	Sh'000	Sh'000	Sh'000
Insurance contract liabilities	20,000	310,968	708,738	1,039,706
Payables under deposit insurance contracts	3,497,314	-	-	3,497,314
Payables arising out of reinsurance arrangements	86,482	-	-	86,482
Other payables	124,614	-	-	124,614

The table below provides a contractual maturity analysis of the company's financial liabilities as at 31 December 2017:

	No stated maturity	Less than 1 year	More than 1 year	Total
	Sh'000	Sh'000	Sh'000	Sh'000
Insurance contract liabilities	35,000	187,111	762,689	984,800
Payables under deposit insurance contracts	3,115,339	-	-	3,115,339
Payables arising out of reinsurance arrangements	22,297	-	-	22,297
Other payables	103,952	-	-	103,952

(d) Unit-linked contracts

For unit-linked contracts, the Company matches all the liabilities with assets in the portfolio in which the unit prices are based. There is therefore no interest, price, currency or credit risk for the Company on these contracts

2.3 Fair value hierarchy

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

NOTES TO THE FINANCIAL STATEMENTS (*CONTINUED*)
FOR THE YEAR ENDED 31 DECEMBER 2018

2 RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

2.3 Fair value hierarchy (continued)

The following table presents the company's financial assets measured at fair value at 31 December 2017 and 31 December 2018

31 December 2018	Level 1 Shs'000	Level 2 Shs'000	Level 3 Shs'000	Total Shs'000
Fair value through profit and loss				
- Government securities	770,804	-	-	770,804
- Quoted equities	222,700	-	-	222,700
- Unquoted equities	-	7,557	-	7,557
Total	**993,504**	**7,557**	**-**	**1,001,061**
31 December 2017				
Available for sale				
- Government securities	658,058	-	-	658,058
- Quoted equities	195,119	-	-	195,119
- Unquoted equities	-	8,970	-	8,970
Total	**853,177**	**8,970**	**-**	**862,147**

There were no transfers between levels 1 and 2 during the year.

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the company is the current bid price. These instruments are included in level 1. Instruments included in level 1 comprise primarily Nairobi Securities Exchange ("NSE") equity investments and government bonds classified as available for sale.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

Specific valuation techniques used to value financial instruments include

- Quoted market prices or dealer quotes for similar instruments
- The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves.
- The fair value of forward foreign exchange contracts is determined using forward exchange rates at the balance sheet date, with the resulting value discounted back to present value.

Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

There was no movement in level 3 during the year.

NOTES TO THE FINANCIAL STATEMENTS *(CONTINUED)*
FOR THE YEAR ENDED 31 DECEMBER 2018

2 RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

The following table presents the company's financial assets and liabilities classified under various categories, measured and carried at fair value at 31 December 2017 and 31 December 2018. The values are as represented in the statement of financial position.

As at 31st December 2018	Held to maturity Shs'000	Loans and receiv-ables Shs'000	Available-for-sale Shs'000	Total carrying amount Shs'000	Fair values Shs'000
Assets					
Quoted equities	-	-	222,700	222,700	222,700
Unquoted investments	-	-	7,557	7,557	7,557
Investments in Government securities	2,543,054	-	770,804	3,313,858	3,313,858
Reinsurance share of liabilities	-	103,882	-	103,882	103,882
Receivable arising from direct insurance arrangements	-	109,823	-	109,823	109,823
Commercial Paper & Corporate Bonds	184,855	-	-	184,855	184,855
Investment in Unit Trust	-	-	11,257	11,257	11,257
Life policy loans	-	3,067	-	3,067	3,067
Other loans receivables	-	8,245	-	8,245	-
Other receivables	-	60,923	-	60,923	60,923
Cash and short term deposits	-	1,096,992	-	1,096,992	1,096,992
Total	**2,727,909**	**1,382,932**	**1,012,318**	**5,123,159**	**5,114,914**
Liabilities					
Insurance contract liabilities	1,039,706	-	-	1,039,706	1,039,706
Payable under deposit administration contracts	3,497,314	-	-	3,497,314	3,497314
Payable arising from reinsurance arrangement	-	86,482	-	86,482	86,482
Other Payables and accruals	-	124,618	-	124,618	124,618
Total	**4,537,020**	**211,100**	**-**	**4,748,120**	**4,748,120**
As at 31st December 2017					
Assets					
Quoted equities for various companies	-	-	195,119	195,119	195,119
Unquoted investments	-	-	8,970	8,970	8,970
Investments in Government securities	2,618,122	-	658,058	3,276,180	3,276,180
Reinsurance share of liabilities	-	124,546	-	124,546	124,546
Receivable arising from direct insurance arrangements	-	75,358	-	75,358	75,358
Commercial Paper & Corporate Bonds	185,116	-	-	185,116	185,116
Investment in Unit Trusts	-	-	15,729	15,729	15,729
Life policy loans	-	2,240	-	2,240	2,240
Other receivables	-	44,450	-	44,450	44,450
Cash and short term deposits	-	444,819	-	444,819	444,819
Total	**2,803,238**	**691,413**	**877,876**	**4,372,527**	**4,372,527**
Liabilities					
Insurance contract liabilities	984,800	-	-	984,800	984,800
Payable under deposit administration contracts	3,115,339	-	-	3,115,339	3,115,339
Payable arising from reinsurance arrangement	-	22,297	-	22,297	22,297
Other Payables and accruals	-	103,952	-	103,952	103,952
Total	**4,100,139**	**126,249**	**-**	**4,226,388**	**4,226,388**

NOTES TO THE FINANCIAL STATEMENTS *(CONTINUED)*
FOR THE YEAR ENDED 31 DECEMBER 2018

2 RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

2.4 Capital risk management

The Company maintains an efficient capital structure from a combination of equity shareholders' funds and borrowings, consistent with the company's risk profile and the regulatory and market requirements of its business.

The Company is subject to a number of regulatory capital tests and also employ a number of realistic tests to allocate capital and manage risk.

In reporting the Company's financial strength, capital and solvency is measured using the regulations prescribed by the Insurance Regulatory Authority (IRA). These regulatory capital tests are based upon required levels of solvency capital and a series of prudent assumptions in respect of the type of business written by the company.

The Company's objectives in managing its capital are:

- to match the profile of its assets and liabilities, taking account of the risks inherent in the business;
- to maintain financial strength to support business growth;
- to satisfy the requirements of its policyholders, regulators and rating agencies;
- to retain financial flexibility by maintaining strong liquidity and access to a range of capital markets;
- to allocate capital efficiently to support growth; and
- to manage exposures to movement in exchange rate

An important aspect of the Company's overall capital management process is the setting of target risk-adjusted rates of return for individual business units, which are aligned to performance objectives and ensure that the Company is focused on the creation of value for shareholders.

The Company has a number of sources of capital available to it and seeks to optimise its debt to equity structure in order to ensure that it can consistently maximise returns to shareholders. The Company considers not only the traditional sources of capital funding but the alternative sources of capital including reinsurance, as appropriate, when assessing its deployment and usage of capital. The Company manages as capital all items that are eligible to be treated as capital for regulatory purposes.

The Company is regulated by the Insurance Regulatory Authority in Kenya and as such, is subject to insurance solvency regulations which specify the minimum amount and type of capital that must be held in addition to the insurance liabilities.

The Kenya Insurance regulatory authority has also introduced Risk Based Capital model which will result in risk based approach to supervision. In line with risk based methodology, IRA has developed a Risk Based Capital (RBC) model, which is aimed at introducing capital requirements that are commensurate to the levels of risk being undertaken, and provide appropriate incentives for good risk management. The RBC model is a factor based model that computes the capital requirement based on four risk segments: insurance, market, credit and operational risk.

The new capital requirement (Risk Based Capital) were introduced in the Finance Act, 2015. Insurance companies are required to hold paid up capital by the 30th June 2020; the higher of:-

i. Shs 400 million; or

ii. risk based capital determined by the Insurance Regulatory Authority (IRA) from time to time; or

iii. 5% of the liabilities of the life business for the financial year.

NOTES TO THE FINANCIAL STATEMENTS *(CONTINUED)*
FOR THE YEAR ENDED 31 DECEMBER 2018

2 RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

2.4 Capital risk management (continued)

The Capital Adequacy ratio of the Company as at 31 December 2018 and 2017 is illustrated below.

	2018	2017
	Shs'000	Shs'000
Available Capital	526,410	422,802
Required Capital	400,000	400,000
Capital Adequacy Ratio	132%	106%
Minimum Required Capital Adequacy Ratio	100%	100%

The actuarial valuation results by Independent Actuary for the year ended 2018 used an investment margin of 20% as required by regulation guidelines issued by the authority. Management has assessed the impact if the margin was reduced to 10%, the profit/surplus would have increased by Shs 60million for the year and the Capital Adequacy Ratio would have gone up to stand at 147% as at 31 December 2018. (2017: 132%)

3 GROSS EARNED PREMIUM

The Company is organised into two main divisions, ordinary life and group life business. The premium income of the Company is analysed between the main classes of business as shown below:

Class of business	**2018**	**2017**
	Shs '000	**Shs '000**
Ordinary life	125,301	77,583
Group life	837,511	829,996
Total	**962,812**	**907,579**

NOTES TO THE FINANCIAL STATEMENTS *(CONTINUED)*
FOR THE YEAR ENDED 31 DECEMBER 2018

4 INVESTMENT INCOME

	Long-term business	Shareholders' funds	2018 Total	2017 Total
	Shs '000	Shs '000	Shs '000	Shs '000
Interest from government securities	364,458	45,892	410,350	343,289
Bank deposit interest	49,671	5,866	55,537	24,159
Rental income from investment properties	12,265	-	12,265	12,185
Dividends received from equity investments	8,524	-	8,524	9,896
Fair value gain on investment properties (Note 11)	10,000	-	10,000	7,000
Fair value losses on quoted equities	(39,800)	-	(39,800)	-
Fair value gains from government securities	14,968	806	15,774	-
Gain on sale of quoted equities	2,028	-	2,028	197
Gain on sale of government securities	-	-	-	13,113
Other income	5,567	-	5,567	4,153
Total	**427,681**	**52,564**	**480,245**	**413,992**

5 CLAIMS AND POLICYHOLDERS BENEFITS PAYABLE

	2018	2017
	Shs '000	Shs '000
Life and death claims	162,965	154,739
Surrenders and annuity payments	58,739	60,860
Maturities	15,164	18,556
Increase in actuarial value of insurance contract liabilities	74,526	74,243
Interest declared on deposit administration contracts (Note 25)	314,662	260,322
Total	**626,056**	**568,720**

NOTES TO THE FINANCIAL STATEMENTS (*CONTINUED*)
FOR THE YEAR ENDED 31 DECEMBER 2018

6 OPERATING AND OTHER EXPENSES

	Long term business Shs '000	Shareholders' funds Shs '000	2018 Total Shs '000	2017 Total Shs '000
Employee benefit expense (Note 7)	135,440	-	135,440	118,652
Auditors' remuneration	2,475	-	2,475	2,463
Directors emoluments – fees	6,034	-	6,034	3,773
Depreciation (Note 9)	-	4,526	4,526	5,556
Amortization (Note 10)	-	5,184	5,184	5,184
Repairs and maintenance expenditure	14,505	-	14,505	11,039
Rent of office space	18,635	-	18,635	16,134
Advertising and promotion	17,479	-	17,479	16,927
Professional fees	13,276	-	13,276	5,760
Business levies and taxes	7,198	-	7,198	4,306
Insurances costs	12,496	-	12,496	12,186
Travelling, motor vehicle and accommodation	2,490	-	2,490	3,264
License and subscriptions	1,701	-	1,701	1,181
Training and seminars	5,544	-	5,544	3,349
Communication	2,827	-	2,827	3,338
Printing & stationery	2,161	-	2,161	2,423
Other Board expenses	2,763	-	2,763	2,474
Provisions for impairment of receivables	6,312	652	6,964	-
Other expenses	11,120	1,150	12,270	15,756
Total	**262,456**	**11,512**	**273,968**	**233,765**

7 EMPLOYEE BENEFIT EXPENSE

	Long term business Shs '000	Shareholders' funds Shs '000	2018 Total Shs '000	2017 Total Shs '000
Salaries and wages	116,350	-	116,350	101,115
Social security benefit costs	288	-	288	230
Retirement benefit costs	18,802	-	18,802	17,307
Total	**135,440**	**-**	**135,440**	**118,652**

The Company had 60 employees as at 31 December 2018 (2017: 56)

NOTES TO THE FINANCIAL STATEMENTS *(CONTINUED)*
FOR THE YEAR ENDED 31 DECEMBER 2018

8 CURRENT INCOME TAX

	Long-term business	Shareholders' funds	2018 Total	2017 Total
	Shs '000	Shs '000	Shs '000	Shs '000
(a) Current income tax expense				
Current income tax	-	-	-	-
Deferred income charge /(credit) (Note 27)	8,398		8,398	6,643
Income tax expense	8,398	-	8,398	6,643
Reconciliation of current income tax:				
(Loss) /profit before tax	(63,251)	41,053	(22,198)	(59,702)
Income tax calculated at a tax rate of 30% (2017: 30%)	(18,975)	12,316	(6,689)	(17,911)
Effect of income not subject to tax	18,975	16,476	35,451	36,235
Effect of expenses not deductible for tax	-	3,550	3,550	3,222
Net tax on transfer to long-term business	-	(32,342)	(32,342)	(21,546)
Deferred income tax (Note 27)	8,398	-	8,398	6,643
Income tax expense	8,398	-	8,398	6,643

(b) Taxation recoverable

	Long-term business	Shareholders' funds	2018 Total	2017 Total
	Shs '000	Shs '000	Shs '000	Shs '000
At 1 January	-	(13,690)	(13,690)	(13,179)
Tax paid during the year	-	(1,104)	(1,104)	(511)
Current taxation charge (Note 8(a))	-	-	-	-
At 31 December	-	(14,794)	(14,794)	(13,690)

NOTES TO THE FINANCIAL STATEMENTS *(CONTINUED)*
FOR THE YEAR ENDED 31 DECEMBER 2018

9 MOTOR VEHICLE AND EQUIPMENT

	Motor vehicle	Computers	Furniture, fittings & equipment	Total
	Shs'000	Shs'000	Shs'000	Shs'000
At 1 January 2017	6,561	20,047	17,658	44,266
Additions	1,175	2,860	336	4,371
Disposal	(630)	-	-	(630)
At 31 December 2017	7,106	22,907	17,994	48,007
At 1 January 2018	7,106	22,907	17,994	48,007
Additions	3,900	934	3,424	8,258
Disposal	-	-	-	-
At 31 December 2018	11,006	23,841	21,418	56,265
Depreciation:				
At 1 January 2017	5,770	16,085	8,050	29,905
Charge for the year	524	3,196	1,836	5,556
Disposal	(630)	-	-	(630)
At 31 December 2017	5,664	19,281	9,886	34,831
At 1 January 2018	5,664	19,281	9,886	34,831
Charge for the year	585	2,205	1,736	4,526
Disposal	-	-	-	-
At 31 December 2018	6,249	21,486	11,622	39,358
Net book value:				
At 31 December 2018	**4,757**	**2,355**	**9,796**	**16,908**
At 31 December 2017	**1,442**	**3,626**	**8,108**	**13,176**

10 INTANGIBLE ASSET

	2018	2017
	Shs '000	Shs '000
At 1 January	10,367	15,550
Amortization	(5,184)	(5,183)
At 31 December	5,183	10,367

NOTES TO THE FINANCIAL STATEMENTS *(CONTINUED)*
FOR THE YEAR ENDED 31 DECEMBER 2018

11 INVESTMENT PROPERTIES

	2018 Shs '000	2017 Shs '000
At 1 January	273,000	313,000
Disposal	(128,000)	(47,000)
Fair value gain	10,000	7,000
At 31 December	155,000	273,000

Investment properties were last revalued on 31 December 2018, by Axis Real Estate Limited, independent valuers, on the basis of open market value for existing use. The table below analyses the non-financial assets carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs)
- (1evel 3).

	Level 1	Level 2	Level 3	Total
At 31 December 2018	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**
Investment property	-	155,000	-	155,000
At 31 December 2017				
Investment property	-	273,000	-	273,000

Valuation technique used to derive level 2 fair values

Level 2 fair value of land and building has been derived using the discounted cash flow approach.

Sensitivity analysis

The gross annual rent and yield are the significant unobservable inputs used in the valuation of investment properties. The effect of changes in gross annual rental and yield will have the following effect on the fair value of investment property;

	% change	2018 Kes'000	2017 Kes'000
Gross annual rent	10%	13,872	13,178
Gross annual rent	-10%	11,350	10,782
Yield	0.5%	1,077	1,039
Yield	-0.5%	975	940

NOTES TO THE FINANCIAL STATEMENTS *(CONTINUED)*
FOR THE YEAR ENDED 31 DECEMBER 2018

12 QUOTED EQUITY INVESTMENTS

(a) Available for sale quoted equity securities

	2018 Shs '000	2017 Shs '000
At 1 January	195,119	349,411
Additions	-	75,969
Disposals	-	(254,189)
Fair value (gain)/losses	-	23,928
Reclassified to fair value through profit or loss	(195,119)	-
At 31 December	-	195,119

(b) Fair value through profit or loss quoted equity securities

	2018 Shs '000	2017 Shs '000
At 1 January	-	-
Reclassified from available for sale	195,119	-
Additions	117,995	-
Disposals	(50,614)	-
Fair value losses	(39,800)	-
At 31 December	222,700	-

13 UNQUOTED EQUITY INVESTMENTS

Fair value through other comprehensive income (OCI)

	2018 Shs '000	2017 Shs '000
At 1 January	8,970	8,970
Fair value losses	(1,413)	-
At 31 December	7,557	8,970

NOTES TO THE FINANCIAL STATEMENTS *(CONTINUED)*
FOR THE YEAR ENDED 31 DECEMBER 2018

14 INVESTMENT IN UNIT TRUSTS

	2018 Shs'000	2017 Shs'000
At 1 January	15,729	15,209
Net contributions	(4,472)	520
At 31 December	11,257	15,729

15 REINSURERS' SHARE OF INSURANCE LIABILITIES

	2018 Shs'000	2017 Shs'000
At 31 December (Note 24)	104,662	124,546
-Less: Provision for impairment	(780)	-
At 31 December (Note 24)	103,882	-

Amounts due from reinsurers in respect of claims outstanding with the Company on contracts that are reinsured are included as reinsurers' share of liabilities in the statement of financial position.

16 OTHER RECEIVABLES

	2018 Shs'000	2017 Shs'000
Due from related parties (Note 31)	14,797	886
Prepayments and deposits	11,445	12,397
Staff advances	11,162	9,428
Agents advances and other loans	11,701	9,290
Rent receivables	2,623	3,407
Accrued dividend income	2,434	1,223
Proceeds receivables from disposal of shares	5,134	7,339
Others	1,627	480
At 31 December	60,923	44,450

NOTES TO THE FINANCIAL STATEMENTS *(CONTINUED)*
FOR THE YEAR ENDED 31 DECEMBER 2018

17 GOVERNMENT SECURITIES

	2018	2017
	Shs'000	Shs'000
(a) Government Securities - at amortised cost		
Treasury bills and bonds maturing:		
- In 1 year	301,396	643,612
- In 1- 5 years	782,838	355,839
- After 5 years	1,461,366	1,618,671
- Less: Provision for impairment	(2,546)	-
Total	2,543,054	2,618,122

	2018	2017
	Shs'000	Shs'000
(b) Government Securities-available for sale		
At 1 January	658,058	733,221
Purchases	-	140,577
Maturity	-	(137,969)
Disposal	-	(94,038)
Fair value gains	-	16,267
Reclassified to fair value through profit or loss	(658,058)	-
Total	-	658,058

	2018	2017
	Shs'000	Shs'000
(c) Government Securities-at fair value through profit or loss		
At 1 January	658,058	-
Purchases	352,733	-
Maturity	(255,760)	-
Fair value gains	15,773	-
Total	770,804	-

18 COMMERCIAL PAPER & CORPORATE BONDS

	2018	2017
	KSh 000	KSh 000
Commercial paper and bonds held to maturity:	185,500	185,116
-Less: Provision for impairment	(645)	-
Total	184,855	185,116

NOTES TO THE FINANCIAL STATEMENTS *(CONTINUED)*
FOR THE YEAR ENDED 31 DECEMBER 2018

19 DEPOSITS WITH FINANCIAL INSTITUTIONS

	2018	2017
Held to maturity:	KSh 000	KSh 000
- Within 90 days	406,865	418,292
- Within 1 year	633,508	5,035
-Less: Provision for impairment	(8,532)	-
Total	1,031,841	423,327

20 SHARE CAPITAL

	Number of Shares	Shs'000
Balance at 31 December 2017, and 1 January 2018	5,500,000	550,000
New shares issued during the year	1,500,000	150,000
Balance at 31 December 2018	**7,000,000**	**700,000**

An additional share capital was injected during the year. The total authorized number of ordinary shares is 7,000,000 with a par value of Shs 100. All shares are fully issued and paid up.

21 RETAINED EARNINGS

The retained earnings / (deficits) represent the transfer of accumulated surpluses / (deficits) from the long-term insurance business net of tax. Movement in the retained earnings is shown in the statement of changes in equity.

22 STATUTORY RESERVE

The statutory reserve represents unappropriated actuarial surpluses from the long term business whose distribution is subject to restrictions imposed by the Insurance Act. The Act restricts the amounts of surpluses of the long-term business available for distribution to shareholders to 30% of the accumulated surplus of the long term insurance business. The movement in the statutory reserve is shown in the statement of changes in equity.

23 INSURANCE CONTRACT LIABILITIES

	2018	2017
	Shs'000	Shs'000
Long term insurance contracts at 31 December		
- claims reported and claims handling expenses	179,027	198,647
- actuarial liabilities with respect to contracts in force	860,679	786,153
Total	1,039,706	984,800

Insurance contract liabilities comprises gross claims reported, claims handling expenses and actuarial liabilities with respect to all contracts in force for ordinary (including unit linked policies) and group life business

NOTES TO THE FINANCIAL STATEMENTS *(CONTINUED)*
FOR THE YEAR ENDED 31 DECEMBER 2018

24 MOVEMENTS IN INSURANCE LIABILITIES AND REINSURANCE ASSETS

	2018			2017		
	Gross	Reinsur-ance	Net	Gross	Reinsur-ance	Net
	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
At start of year	984,801	(124,546)	860,255	862,532	(73,493)	789,039
Cash paid for claims settled in the year	(399,993)	241,758	(158,235)	(349,147)	165,162	(183,985)
	584,808	117,212	702,020	513,385	91,669	605,054
(Decrease) /increase in liabilities arising						
- from prior year claims	212,439	(77,220)	135,219	81,110	(59,060)	22,050
- from current year claims	242,458	(144,653)	97,805	390,305	(157,156)	233,149
Total increase in liabilities	454,897	(221,873)	233,025	471,415	(216,216)	255,199
Total	1,039,706	(104,661)	935,045	984,800	(124,547)	860,253
Notified claims	179,027	(104,662)	74,366	198,647	(124,547)	74,100
Actuarial value of life contract liabilities	860,679	-	860,679	786,152	-	786,153
Total at the end of year	1,039,706	(104,662)	935,045	984,800	(124,547)	860,253

25 AMOUNTS PAYABLE UNDER DEPOSIT ADMINISTRATION CONTRACTS

Liabilities due under deposit administration contracts are recorded at amortized cost. Movements in amounts payable under deposit administration contracts during the year are as shown below. The liabilities are shown inclusive of interest accumulated to 31 December. Interest was declared and credited to the customer accounts at a weighted average rate of 10.25%, (2017:9.50%).

	2018	2017
	Shs'000	Shs'000
At 1 January	3,115,339	2,601,453
Pension fund deposits received	530,487	585,374
Pension fund withdrawals	(463,174)	(331,811)
Interest payable to policyholders	314,662	260,323
At 31 December	3,497,314	3,115,339

NOTES TO THE FINANCIAL STATEMENTS *(CONTINUED)*
FOR THE YEAR ENDED 31 DECEMBER 2018

26 OTHER PAYABLES

	2018	2017
	Shs'000	Shs'000
Due to related companies (Note 31)	1,914	4,353
Accrued expenses	73,620	42,059
Rental deposits	1,730	1,948
Trade creditors	16,432	2,185
Premium deposits	27,773	45,147
Other liabilities	3,149	8,260
At 31 December	124,618	103,952

27 DEFERRED INCOME TAX

Deferred income tax is calculated using the enacted tax rate of 30% (2017: 30%). The movement on the deferred income tax account is as follows

	2018	2017
	Shs'000	Shs'000
At 1 January	10,027	3,384
(Credit) /charge to profit or loss (Note 8(a))	8,398	6,643
At 31 December	18,425	10,027
Deferred tax movement is made up as follows:		
Movement in unappropriated surplus /(deficit)		
At 1 January	33,427	11,283
At 31 December	61,421	33,427
Movement of the surplus during the year	(27,994)	22,144
Deferred income tax charged/ (credit) at 30% (2017: 30%)		
At 31 December	(8,398)	6,643

NOTES TO THE FINANCIAL STATEMENTS *(CONTINUED)*
FOR THE YEAR ENDED 31 DECEMBER 2018

28 (a) NOTES TO THE STATEMENT OF CASH FLOWS

	NOTES	2018	2017
Reconciliation of profit before taxation to cash generated from operations:		Shs'000	Shs'000
Profit /(loss) before income tax		(22,198)	(59,702)
Adjustments for:			
Interest income	4	(465,887)	(367,448)
Profit on sale of quoted equities	4	(2,028)	(197)
Profit on sale of government securities	4	-	(13,113)
Fair value loss on quoted equities	4	39,800	-
Fair value gain on government securities	4	(15,774)	-
Depreciation charge	9	4,526	5,556
Amortization charge	10	5,184	5,183
Fair value gain on investment properties	11	(10,000)	(7,000)
Gain from sale of fixed assets		-	(464)
Provision for impairment on account of IFRS 9		6,966	-
Changes in:			
- technical provisions		457,545	585,099
- receivables arising from reinsurance arrangements		64,185	(104,497)
- other payables		20,666	15,836
- other receivables		(50,939)	49,818
Cash outflow from operations		32,046	109,071

(b) CASH AND CASH EQUIVALENTS

	2018	2017
For the purposes of the cash flow statement, cash and cash equivalents comprise the following:		
Cash and bank balances	65,151	21,492
Deposits with financial institutions (Note 19)	406,865	423,327
Total	472,016	444,819

NOTES TO THE FINANCIAL STATEMENTS *(CONTINUED)*
FOR THE YEAR ENDED 31 DECEMBER 2018

29 CONTINGENT LIABILITIES

In common with the insurance industry in general, the Company is subject to litigation arising in the normal course of insurance business. At the reporting date, there was no litigation that the company was aware of. The directors are of the opinion that any litigation that may arise from this source will not have a material effect on the financial position or profits of the Company.

In 2015, the Company received a tax assessment for principal tax of Shs 33,745,125 relating to prior periods, which is in dispute and the company is contesting the assessment. No provision has been made in these financial statements for these amounts as the Company considers it has adequate grounds to dispute the assessment.

30 OPERATING LEASE COMMITMENTS

The future minimum lease payments under operating leases are as follows:

	2018 Shs'000	2017 Shs'000
Due not later than 1 year	11,920	11,352
Due after 1 year and not later than 5 years	71,779	68,361
Later than 5 years	18,683	17,793
Total	102,382	97,506

31 RELATED PARTIES

In the normal course of business, insurance policies are sold to related parties at terms and conditions similar to those offered to major clients. The Company is a wholly owned subsidiary of Apollo Investments Limited, also incorporated in Kenya. Apollo Holdings Limited, Apollo Asset Management Company Limited, Gordon Court Limited and APA Insurance Limited are related to APA Life Assurance Limited through common shareholdings and directorships.

Outstanding balances with related parties	2018 Shs' 000	2017 Shs' 000
(i) Due from related parties (Note 16)		
Due from a Director	13,911	-
Due from Apollo Investments Limited	886	886
Total	14,797	886

NOTES TO THE FINANCIAL STATEMENTS *(CONTINUED)*
FOR THE YEAR ENDED 31 DECEMBER 2018

31 RELATED PARTIES (Continued)

(ii) Due to related parties (Note 26)	2018 Shs 000	2017 Shs 000
Due to Gordon Court Limited	92	105
Due to Apollo Asset Management Limited	1,279	1,636
Due to APA Insurance Limited	543	2,612
Total	1,914	4,353
(iii) Related party transactions		
Apollo Asset Management Company Limited		
Fees for asset management	14,163	10,856
Gordon Court Company Limited		
Office rent	11,908	11,229
APA Insurance Limited		
Contributions received for pension scheme	86,773	82,621
Premium received for group life assurance	5,665	4,376
Premium paid for general insurance business	9,360	11,598
Other related party transactions		
Sale of investment property to a director	-	47,000
(iv) Key management and directors' compensation		
Directors' fees	6,034	3,870
Other remuneration	20,701	17,109
Key management compensation	58,643	48,025
Total	85,378	69,004

32 WEIGHTED AVERAGE EFFECTIVE INTEREST RATES

The following table summarises the company's weighted average effective interest rates realized during the year on the principal interest-bearing investments:

	2018 %	2017 %
Government securities	12.08	11.93
Deposits with financial institutions	9.56	9.63
Commercial paper & corporate bonds	12.97	12.95

SUPPLEMENTARY INFORMATION
REVENUE ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2018

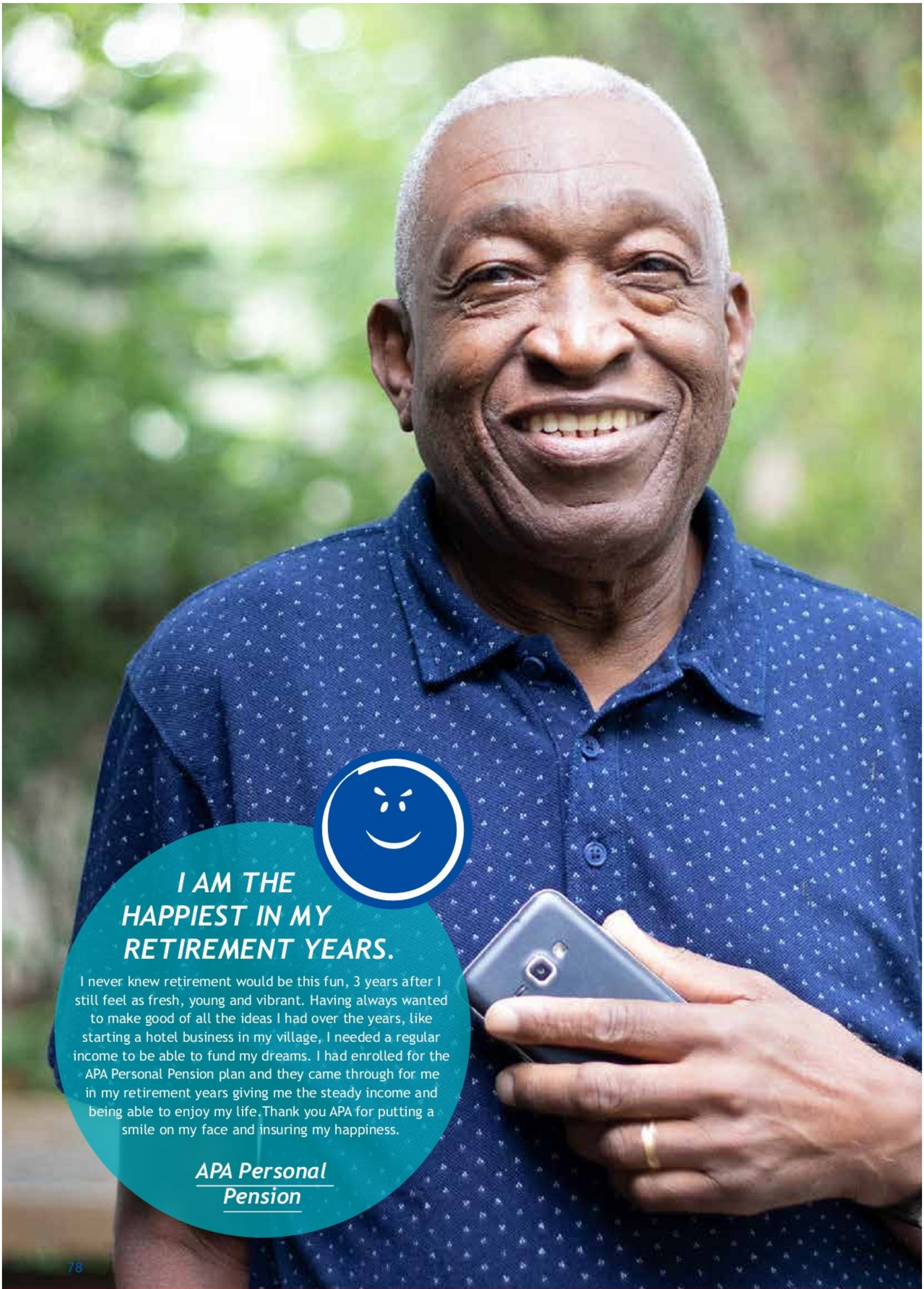
	Ordinary Life business Shs' 000	Group Life business Shs' 000	Other Shs' 000	2018 Total Shs' 000	2017 Total Shs' 000
INCOME:					
Gross earned premium	125,301	837,511	-	962,812	907,579
Reinsurance premiums ceded	(2,339)	(493,474)	-	(495,813)	(548,176)
Net earned premium	**122,962**	**344,037**	**-**	**466,999**	**359,403**
Investment income	3,455	67,225	357,002	427,681	376,449
Commission earned	7	106,062		106,069	113,745
Total income	**126,424**	**517,324**	**357,002**	**1,000,749**	**849,597**
OUTGO:					
Claims and policy holder benefit					
Life and death claims	(1,105)	(162,137)	-	(163,242)	(154,739)
Surrenders and annuity payments	(402)	(58,337)	-	(58,739)	(60,860)
Maturities	(14,887)	-	-	(14,887)	(18,556)
Increase in insurance contract liabilities	(84,202)	9,676	-	(74,526)	(74,243)
Interest on deposit administration policyholders	-	-	(314,662)	(314,662)	(260,322)
Net claims and policyholder benefits payable	**(100,596)**	**(210,798)**	**(314,662)**	**(626,056)**	**(568,720)**
Expenses					
Operating and other expenses	(105,394)	(127,371)	(29,692)	(262,457)	(223,025)
Commissions payable	(42,593)	(122,270)	(10,622)	(175,485)	(144,357)
Total expenses and commissions	**(147,987)**	**(249,641)**	**(40,314)**	**(437,942)**	**(367,382)**
(Loss) / profit the year before income tax	(122,159)	56,885	2,025	(63,249)	(86,505)
Income tax expense	(2,347)	(9,576)	3,525	(8,398)	(6,643)
(Loss)/ profit for the year after tax	**(124,506)**	**47,309**	**5,550**	**(71,647)**	**(93,148)**

The above supplementary information was approved by the board of directors on 12 March 2019 and signed on its behalf by:

RICHARD M. ASHLEY
Chairman

Ashok Shah

ASHOK SHAH
Director



I AM THE HAPPIEST IN MY RETIREMENT YEARS.

I never knew retirement would be this fun, 3 years after I still feel as fresh, young and vibrant. Having always wanted to make good of all the ideas I had over the years, like starting a hotel business in my village, I needed a regular income to be able to fund my dreams. I had enrolled for the APA Personal Pension plan and they came through for me in my retirement years giving me the steady income and being able to enjoy my life.Thank you APA for putting a smile on my face and insuring my happiness.

APA Personal Pension

THE APOLLO GROUP

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